ArcelorMittal

Integrated report 2019

Contents

A - Our business

B - Leadership and reports

C - Strategic objective execution

D - Corporate governance

E - Corporate information

Feedback

We value feedback from our stakeholders and use it to ensure that we are reporting appropriately on the issues that are most relevant to them.

Please take the time to give us your feedback on this report. Visit the web link: **https://www.arcelormittalsa.com/InvestorRelations/Emailus.aspx**

Report navigation

To aid navigation and cross-referencing, this report contains the following icons: our key strategic objectives, our most material issues, our top 10 risks and our key performance indicators.

Our online report includes additional information on particular topics.

These icons refer to our four key strategic objectives:

1 Towards zero harm

2 Delivering sustainable profits throughout the steel cycle

3 Being a valued, responsible corporate citizen

4 Adapting our workforce to a new reality

OUR MATERIAL ISSUES

- Workplace safety
- Liquidity
- Fixed and input costs
- Optimising our industrial footprint
- Organisational restructuring
- Environmental compliance
- Customer focus and support for the downstream
- B-BBEE compliance

OUR TOP 10 RISKS

- Risk 1 Solvency and liquidity
- Risk 2 Input costs
- Risk 3 Spread risk
- Risk 4 Market demand
- Risk 5 Environmental compliance
- Risk 6 Operational stability
- Risk 7 Imports
- Risk 8 Foreign exchange exposure
- Risk 9 Input material supply
- Risk 10 Safety performance

OUR 15 KPIs

- KPI 1 Work-related fatalities
- KPI 2 Lost time injury frequency rate (LTIFR)
- KPI 3 Total injury frequency rate (TIFR)
- KPI 4 Earnings before interest, taxes, depreciation and amortisation (EBITDA) per tonne (R/t)
- KPI 5 Return on capital employed (ROCE) (%)
- KPI 6 Steel market share
- KPI 7 Liquid steel production (000 tonne)
- KPI 8 Cash generated from operations before working capital (Rm)
- KPI 9 Net cash/debt position at year-end
- KPI 10 On-time deliveries (%)
- KPI 11 Preferential procurement spend
- KPI 12 B-BBEE compliance score
- KPI 13 Environmental spend (Rm)
- KPI 14 Total cost of employment (TCOE)
- KPI 15 Management control performance (under B-BBEE codes)

Why you should read this report

ArcelorMittal South Africa's steel-making capability and its products are at the very heart of the national economy. Our steel is used to build the infrastructure that will be used for generations, and to engineer products that create wealth and support hundreds of thousands of jobs.

The profound challenges currently facing our company are symptomatic of broader economic realities. How effectively our leadership executes strategy to create value while managing risks and opportunities affects shareholders, employees, suppliers, customers and whole communities. In 2019 we embraced a number of very fundamental changes. These changes will have significant impacts on all of these stakeholders.

In this report you can read about the thinking that guided our leaders' decisions and how we as an organisation worked to give effect to our strategy. We discuss, with considerable candour, the impacts various decisions have had on stakeholders. You will also read about how our new 'One Organisation' will look in future and about our ability to continue to create sustainable value.

Here we report on the activities, strategy and value creation of ArcelorMittal South Africa and its subsidiaries, its operating context and its relationships with many stakeholder groups and the natural environment. As is now widely known, in November it was announced that we would embark on an orderly wind-down of steel operations at our Saldanha Works. In this 2019 integrated report we continue to report on Saldanha Works, its processes, production and value creation, particularly in the West Coast region.

Our 2018 integrated report won the merit award in the Small Cap category at the 2019 Chartered Secretaries Southern Africa integrated reporting awards, our 2017 report having won this category the previous year.

For the third year we include an independent statement of assurance by the head of internal audit on the process of report compilation – on page 72. A limited assurance report on selected key performance indicators is contained on page 70.

Forward looking statements

All forward looking statements involve a number of risks, uncertainties and other factors not within our control. This reality could cause actual outcomes and developments to differ materially from those projected or implied in this report. Forward looking statements reflect information available at the time of preparing this report and have not been reviewed by the company's auditors. Readers should not place reliance on such forward looking statements.

Board responsibility

The board is satisfied that this report addresses the material issues, accurately presents the integrated performance of the company and that it has been compiled in accordance with the International Integrated Reporting Framework.

The board authorised this report on 2 April 2020.

Mpho Makwana
Chairman

Kobus Verster
Chief executive officer

Desmond Maharaj
Chief financial officer

Brian Aranha

Zee Cele

Noluthando Gosa

Gert Gouws

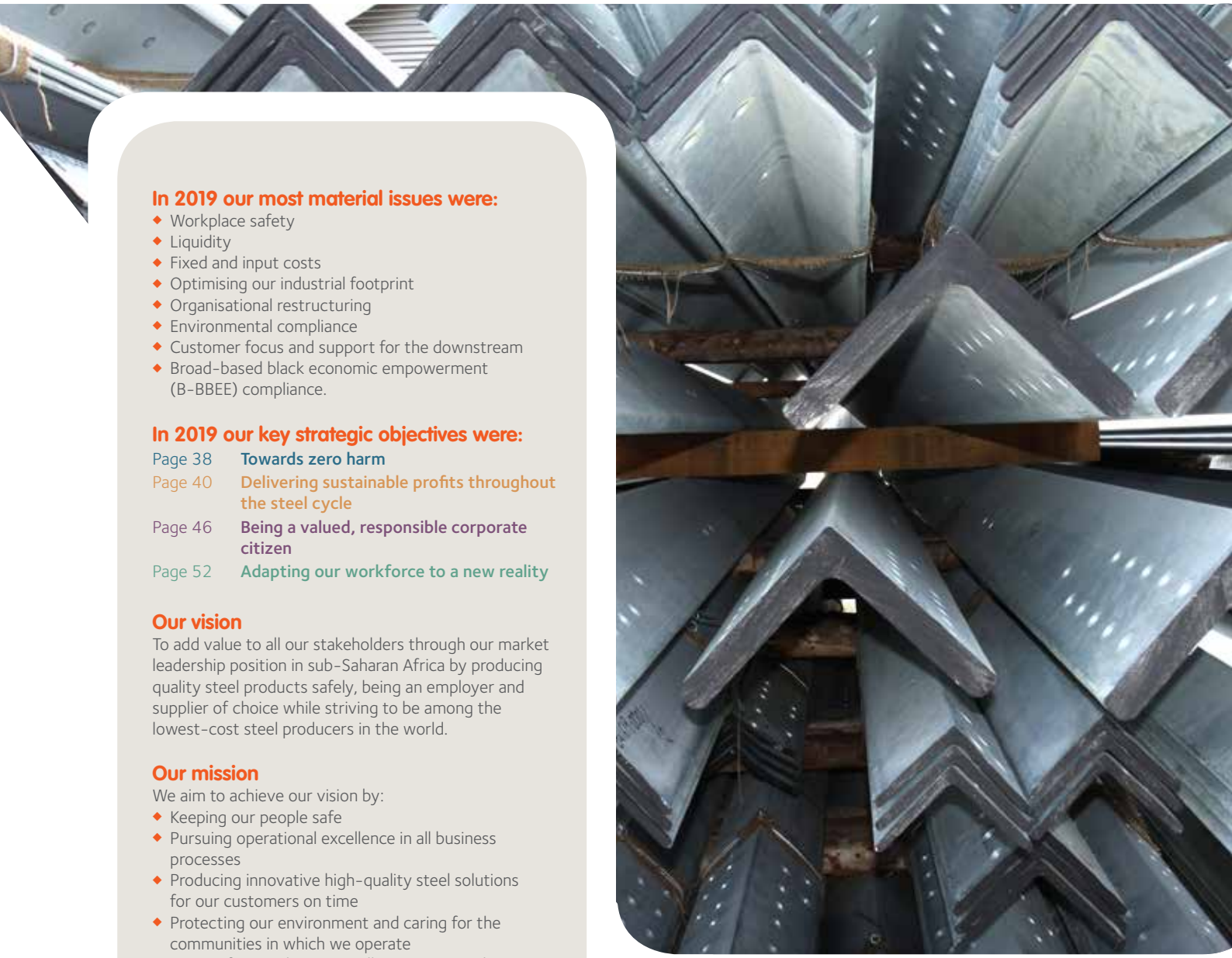
Raman Karol

Nomavuso Mnxasana

Jacob Modise

Monica Musonda

Neville Nicolau



In 2019 our most material issues were:

- Workplace safety
- Liquidity
- Fixed and input costs
- Optimising our industrial footprint
- Organisational restructuring
- Environmental compliance
- Customer focus and support for the downstream
- Broad-based black economic empowerment (B-BBEE) compliance.

In 2019 our key strategic objectives were:

Our vision

To add value to all our stakeholders through our market leadership position in sub-Saharan Africa by producing quality steel products safely, being an employer and supplier of choice while striving to be among the lowest-cost steel producers in the world.

Our mission

We aim to achieve our vision by:

- Keeping our people safe
- Pursuing operational excellence in all business processes
- Producing innovative high-quality steel solutions for our customers on time
- Protecting our environment and caring for the communities in which we operate
- Being a fair employer as well as a career and skills developer

Our values

These underpin our strategic objectives and impact our stakeholders:

- Safety
- Customer focus
- Caring
- Commitment

In addition to this integrated report, we report online:

- Full annual financial statements, including unabridged remuneration and financial performance and limited assurance reports
- King IV™* application statement.

Access our full annual financial statements

The full 2019 financial statements, which are available at **https://www.arcelormittalsa.com/InvestorRelations/AnnualFinancialStatements.aspx**, provide comprehensive insight into the financial position and performance of the company for the year under review. Copies of the full financial statements may also be requested from the company secretary, **avdm@fluidrockgovernance.com**.

View this report online:
https://www.arcelormittalsa.com/InvestorRelations/IntegratedAnnualReports.aspx

Who we are

ArcelorMittal South Africa is sub-Saharan Africa's largest steel producer with an annual production capacity (in 2019) of 6.5 million tonnes of liquid steel. In 2019 we produced 4.4 million tonnes of finished primary steel products – almost 700 000 tonnes lower than in the previous year.

Headquartered in Vanderbijlpark and with operating facilities in Vanderbijlpark, Newcastle, Saldanha and Vereeniging, ArcelorMittal South Africa is a proudly South African company with a legacy of more than 90 years and is part of the world's leading steel producer, which has industrial sites in over 20 countries.

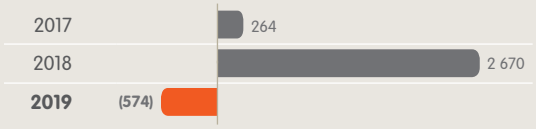
Our steel is produced in flat and long products which are further processed by downstream manufacturers. Our Coke and Chemicals operations produce metallurgical coke for internal consumption and commercial-grade coke for use by, primarily, the ferro-alloy industry. It also processes and markets steel-making by-products. We supply approximately 65% of the primary steel used in South Africa while exporting to sub-Saharan Africa and elsewhere. At the end of 2019 we employed 8 379 FTEs (2018: 8 837) with an estimated economy-wide employment-creating impact of over 140 000 jobs.

Flat steel products

Produced at Vanderbijlpark and Saldanha Works. Products include slabs and heavy plates as well as hot rolled coil, cold rolled and coated products. Major consumers are the construction, piping, packaging and automotive industries.

EBITDA contribution (R million)

Flat steel: **(574)**



Vanderbijlpark Works

One of the world's largest inland steel mills and sub-Saharan Africa's biggest supplier of flat steel products. An integrated process produces liquid iron which is refined to produce, ultimately, heavy plate and coils.

For more information on Vanderbijlpark Works – see page 43.

Saldanha Works

Largely export focused, Saldanha Works produced high-quality ultra-thin hot rolled coil using a world-first merger of the Corex and Midrex technologies to replace the need for blast furnaces and coke ovens. In November it was decided to place Saldanha Works on care and maintenance, from Q2 2020.

For more information on Saldanha Works – see page 36.

Capacity

Vanderbijlpark Works: 2.9 million tonnes of liquid steel per annum
Saldanha Works (to be mothballed, Q2 2020): 1.3 million tonnes of liquid steel per annum.

Vanderbijlpark Works	2019	2018	2017
Capacity utilisation+	68%	85%	81%
LTIFR+	0.47	0.31	0.38
Revenue+	R22.4 billion	R25.5 billion	R22.5 billion
Liquid steel production+	1.967 million tonnes	2.475 million tonnes	2.340 million tonnes
Saldanha Works			
Capacity utilisation+	72%	84%	86%
LTIFR+	0.00	1.81	0.62
Revenue+	R7.6 billion	R8.7 billion	R7.9 billion
Liquid steel production+	0.930 million tonnes	1.086 million tonnes	1.118 million tonnes

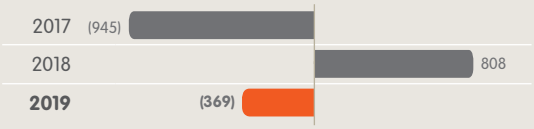
+ *Externally assured.*

Long steel products

Produced at Newcastle and Vereeniging Works. Products include bars, billets, blooms, hot-finished and cold-drawn seamless tubes, window and fencing profiles, light, medium and heavy sections, rod and forged products. Long steel products are used primarily in the construction industry.

EBITDA contribution (R million)

Long steel: **(369)**



Since 2015, when the Vereeniging Works Electric Arc Furnace (EAF) was closed, billets produced at the Newcastle Works furnace have been transported to Vereeniging for milling. In January 2019 the Vereeniging Works EAF was put back into operation to boost our ability to compete against scrap-based long steel producers.

Billets transported to Vereeniging from Newcastle Works dropped from 15 000 tonnes per month to 4 000 tonnes per month. Tubular Products (100%), Leeukuil Mill (80%) and the Small Section Mill (80%) receive their input material (as per the percentages indicated) from the restarted EAF. The balance is transported from Newcastle Works.

Tubular Products is the sole producer of hot rolled and cold drawn seamless tube products in South Africa. The facility produces 100 000 tonnes of final product a year, of which 80% is exported.

In 2019 Evraz Highveld Steel's mill in Mpumalanga produced between 8 000 and 10 000 tonnes of heavy structural steel a month using input material produced at Newcastle Works (50%) and Vanderbijlpark Works (50%).

For more information on long steel products – see page 43.

Capacity

Newcastle Works: 1.9 million tonnes of liquid steel per annum.

	2019	2018	2017
Capacity utilisation+	66%	81%	76%
LTIFR+	0.41	0.55	0.40
Revenue+	R15.7 billion	R14.9 billion	R11.8 billion
Liquid steel production+	1.514 million tonnes	1.531 million tonnes	1.452 million tonnes

+ *Externally assured.*

Coke and Chemicals

From batteries in Vanderbijlpark, Newcastle and Pretoria Works, Coke and Chemicals operations produces metallurgical coke for our furnaces in Vanderbijlpark and Newcastle Works, and commercial coke for sale to, especially, the ferro-alloy industry. The business also processes and beneficiates metallurgical and steel by-products, including coal tar. These are sold as raw materials for a wide variety of uses.

EBITDA contribution (R million)

Coke and Chemicals: **250**

Almost two-thirds of revenue derives from the ferrochrome industry with significant quantities of commercial coke also being consumed by the aluminium, alloys, petrochemicals and other sectors. From 2020 Coke and Chemicals has begun operating as two distinct businesses: coke business unit and by-products with management of the former assuming responsibility for both metallurgical and commercial coke production.

For more information on Coke and Chemicals – see page 44.

Capacity

220 000 tonnes of coke.

	2019	2018	2017
LTIFR+	0.80	0.71	0.00
Revenue+	R1.3 billion	R1.4 billion	R1.4 billion
Commercial coke production+	191 000 tonnes	184 000 tonnes	190 000 tonnes

+ *Externally assured.*

How we create social and human value

Local economic and social impact

R4.8bn
Salaries, wages and benefits

R33.6bn
Supplier spend

R1.2bn
Improving and maintaining our plants

R0.15bn
Mitigating environmental impacts

National economic, industrial and employment impact

More than 76% of our South African sales go to four key industrial sectors:

2019 sales (000 tonnes)

Construction	Utilities
1 560	123
Mining	**Automotive**
262	305

Between them, these sectors account for more than 15% of South Africa's GDP and 2 million jobs.

2019 capital spend
Our plants are at the heart of local economies

Employer, job creator and skills developer

Almost 8 400
directly employed, of whom 74% were ACI (African, Coloured and Indian)

2.9 jobs
created for every 1 000 tonnes of steel produced

328 000 hours
of training conducted at a cost of R134 million

497 production learners
(down from 559 in 2018)

Catalyst for change

R155m
– value of business placed with local supplier development beneficiaries (12% higher than 2019)

R1.7bn
Procurement from small, micro and emerging suppliers

93%
– percentage of those in our technical training pipeline who were black. Of 675 learner apprentices, 96% were black, as were 100% of technician bursars

Level 5*
– B-BBEE contributor status remained the same as in 2018

** Self-assessed.*

Our products, production facilities and supply chains are at the very heart of the South African economy. We sustain tens of thousands of jobs and are essential to the wellbeing of several large communities.

Despite formidable financial challenges, we invest in thousands of employees, contractors and suppliers and work with communities, government and other businesses to transform and grow our economy.

In 2019 ArcelorMittal South Africa:

Sustained **2 832 full-time equivalent** jobs provided by contractors

Had a fresh water intake of 3.23kℓ/tonne of liquid steel which was 11.4% higher than the previous year.

Directly **reached 19 000 learners** through our three sponsored science centres

Invested R18 million in local communities through socio-economic development

Grew supplier development spend to R22.2 million

Economic growth engine

R233m
Value of rebates given to customers who used our products to achieve new export sales in 2019

6 127
Tonnes of iron ore (000) which was beneficiated – and not exported without value add

R9.5bn
Export revenue

2 174
Tonnes of coal (000) which was consumed and not exported without value add

Employer, job creator and skills developer

Touching every part of the South African economy, steel is central to the achievement of the 2030 goals of the National Development Plan (NDP)

Enabling the NDP through beneficiation

Attainment of the NDP's key targets is supported by ArcelorMittal South Africa's activities. By beneficiating large amounts of raw materials and producing primary steel for further processing, the company facilitates manufacturing, job creation, investment in infrastructure and exports.

Steel

Steel products	Energy	Construction	Manufacturing	Agriculture	Automotive	Mining
Structural steel	Renewables	Infrastructure	Defence			
Wire products	Oil and gas	Rail				
Packaging, food and beverage		Pipelines				
		Logistics				
		Communication				
		Water supply				

The NDP stresses how important exports are to job-creating sustainable growth. In 2019 we exported more than 1.1 million tonnes of steel while rebates amounting to R233 million helped our customers sell outside South Africa. Major beneficiaries of these value-added rebates were:

R132 million	R56 million	R26 million
Manufacturing	Merchants	Structural metal

R9 million	R4 million
Mining	Automotive

■ Major focus on NDP 2030. Source: NDP 2030

Our operating context

In 2018 world steel markets were extremely buoyant, total international sales increasing by some 6.6% to 1.8 billion tonnes. This upturn was a symptom of the extreme volatility of international steel sales – in the past six years world demand rose by an average of 2% year-on-year while there was a 3% contraction between 2014 and 2015.

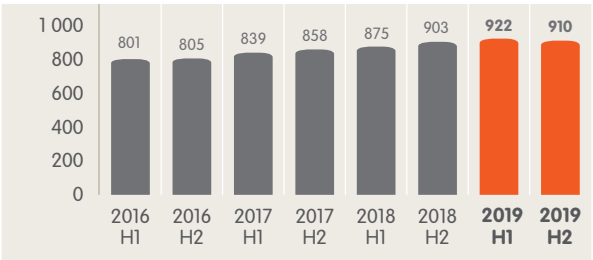
Our steel markets

Global

In 2018, international prices for hot rolled coil (HRC) increased by 12.5% and for rebar by 12%. In 2019, however, world demand slowed dramatically. With few exceptions, the major steel-consuming regions all witnessed lower sales, or almost non-existent growth. This phenomenon was particularly marked in the European Union where growth fell from 4.3% to 0.3.%, "Developed Asia" which also witnessed a 0.3% contraction and China where year-on-year growth halved to 1%.

In line with weaker growth in steel demand, international prices softened substantially – for the benchmark China HRC (free on board (FOB)) prices declined by 13% (USD75 per tonne) and rebar (China FOB) prices declined by 10% (USD55 per tonne). Coming off the back of a strong 2018, however, there was a limited decrease in primary steel production capacity, China not continuing with the approximately 100 million tonnes per annum by which it reduced capacity in 2018.

Global crude steel output (Mt)



Africa

While demand and prices were softening, 2019 also witnessed various very large markets increasing measures to restrict the import of steel products. This was particularly pronounced within the European Union and in the United States, where the effects of Section 232 tariffs of 25% on steel imports from outside the North American Free Trade Agreement (NAFTA) trade area began to be felt.

The imposition of new, more stringent barriers to entry by certain developed steel markets had major implications for our company. Whereas we have previously exported negligible amounts of steel to Europe and the United States, the fact that these markets became harder to penetrate made sub-Saharan Africa considerably more attractive for low-cost, subsidised primary producers. (These destinations include several of ArcelorMittal South Africa's blue-water and Africa Overland markets.)

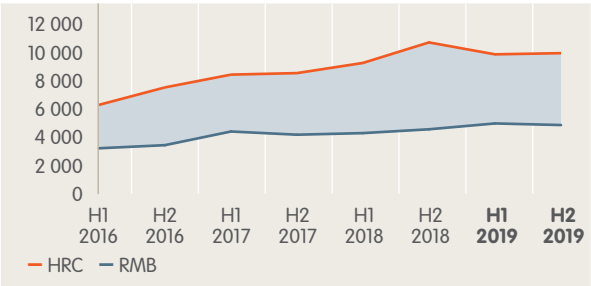
In 2018 we grew exports by 21%, such that exports in that year represented more than a quarter of total sales. This strong export performance largely informed the profits – the first for several years – reported by the company as a whole. (In 2019 our export sales declined slightly although realised prices dropped significantly.)

Sub-Saharan Africa's fragile economic prospects, largely on the back of weaker commodity prices, were reflected in a relatively muted overall 2019 growth projection of just 2.6%. In all of our key foreign markets, including the near markets of Zambia, Mozambique, Botswana and Zimbabwe, in the year steel demand was muted and our products struggled to compete against imports of (especially) Chinese steel. There was some progress achieved in 2019 towards unlocking the infrastructural investment which is expected to flow from the exploitation of Mozambique's prodigious natural gas deposits but the effects of these on steel demand were extremely limited.

In sub-Saharan Africa, despite our products enjoying quality, shipping time and cost advantages, these countries impose generally minimal import tariffs on steel. Exports of South African seaborne steel to especially east and west Africa were particularly hard hit, net realised prices declining by as much as USD83/tonne year on year. Our long steel products division competed well in export markets, increasing blue-water volumes by 185% year on year. On the other hand, flat-steel exports from Saldanha Works continued to be very negatively impacted by volume and pricing, developments in its African markets with Saldanha Works' export volumes falling by almost a quarter.

At present some 20 million tonnes of primary steel is imported by sub-Saharan countries from outside the continent. Despite our export sales achievements of the previous year, this means that ArcelorMittal South Africa continues to be a relatively minor supplier to markets in which, given a level playing field, it should enjoy significant competitive advantages. Positively, Africa has an average annual steel consumption of just 28kg per capita, a rate which, it is generally agreed, points to considerable scope for development. Middle-income countries such as Brazil and Mexico, for instance, have per capita consumptions 10 or more times this amount.

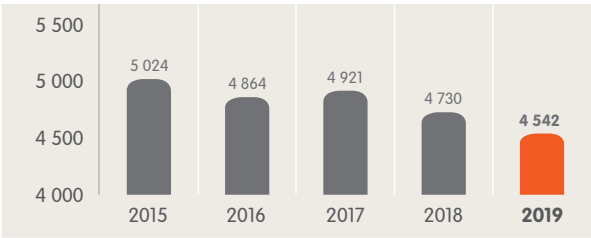
Our RMB and HRC prices (R/t)



South Africa

This year the domestic steel industry continued the decline it has experienced since 2010. As the following starkly demonstrates, apparent steel consumption has fallen by 10% in the past five years.

South African apparent steel consumption (000)



This dismal performance derived from minimal economic growth and investment translating into poor steel demand while cheap steel imports remain a considerable challenge. This despite the recent imposition of limited import protections on some flat steel products. In 2019, steel imports rose by 15% to 918 000 tonnes.

With its multiple linkages within the South African economy, the steel and metals fabrication sector is fundamental to realising this country's industrial policy (which emphasises the beneficiation of raw materials) and its socio-economic developmental aspirations.

Since 2010 almost all parts of the steel and metal fabrication value chain have shed jobs. In 2019 we assisted customers by granting steel exporters more than R230 million in rebates, helping sectors to prepare applications for protection against unfair secondary imports and by developing new product specifications.

In the same period, most metal and steel manufacturing industries experienced declines in profitability and in return on assets. As reported by the South African Iron and Steel Institute (SAISI), in South Africa finished steel is distributed to three main sectors: manufacturing including automotive (66%), building and construction (30%) and mining (4%). As the institute further notes, much of the steel defined as being consumed by "manufacturing" actually ends up being used in construction, underscoring the importance of building and infrastructure to the steel industry, an importance which could be as high as 60% of all steel and steel products.

2019 data on building plans passed – both residential and non-residential – combine with construction-firm liquidations and employment statistics to paint a picture of a construction sector which contracted in the face of minimal private sector investment.

The impact of unfairly subsidised imported primary steel on ArcelorMittal South Africa has been well documented but the negative effects on fabrication and manufacturing are no less severe. In 2019 almost 1 500kt were imported, some 663kt of these being of Chinese origin. In 2019 imports from Russia and Taiwan grew substantially, these countries being exempted from safeguards. At the time of reporting, the removal of Russian import exemption on HRC had yet to be gazetted.

The poor state of almost all sectors on which we depend, both domestically and in the rest of Africa, directly affects our ability to sell steel while weak international prices undermine the net prices realised.

Outlook

Before the COVID-19 virus had reached pandemic proportions, World Steel anticipated global steel demand increasing by 1.7% in 2020 with prices bottoming out, possibly as early as the first quarter. By March, however, it had become apparent that the disease's economic impacts would be profound, with international HRC prices possibly dropping below USD400/tonne.

The traditional correlation between steel-making inputs (particularly that of iron ore) and world steel prices simply no longer applies. This derives almost entirely from subsidised primary steel production on a vast scale, in China.

Unlike most international steel producers, our company faces the added burdens of contracting markets combined with administered price increases which have risen to such an extent as to threaten our sustainability.

Steel prices

In terms of an historical agreement with the South African competition authorities, the prices we charge domestic customers for our flat steel (69% of total sales and two-thirds of revenue) are determined by a basket of international realised prices. This means that we are unable to use our strength in the local primary steel market to dictate prices and are, instead, effectively a price taker. (Paradoxically, this regime also means that we are exposed to unfairly subsidised or even dumped steel imports.)

In 2019 the average selling price of HRC China FOB was USD490/tonne, a 13% drop from the preceding year. Average rebar (long steel) prices declined by a similar percentage. On flat steel, price swings were particularly pronounced during the year, HRC loaded for shipping from China fetching USD512/tonne in Q1 and as little as USD452/tonne in the final quarter of the year.

Overall, our net realised prices fell by 9%, a negative impact which was softened by the rand deteriorating by a similar amount against the dollar.

Notably, average net realised prices in rand for flat steel per plant showed significant differences in the year: for Vanderbijlpark Works these were R10 250/tonne and for Saldanha Works only R8 036/tonne.

With South African apparent steel consumption declining by a disconcerting 10% in the past five years, the steel downstream to whose fortunes we are so closely tied was clearly facing considerable stress. Liquidations in the construction, manufacturing and engineering industries rose sharply, negatively impacting our sales potential stocks previously sold to those businesses closing or going into business rescue were bought by other, surviving, downstream firms.

Our value creation model

Inputs

Natural capital

Raw materials consumed

	2019	2018
Iron ore	**6 127kt**	7 390kt
Coal	**3 754kt**	4 011kt
Consumed scrap*	**700kt**	779kt
Fluxes	**1 428kt**	1 795kt

** Externally procured and internally generated and recycled.*

Energy

	2019	2018
Electricity purchased (TWh)*	**2.95**	3.07

** Externally assured.*

Water intake

	2019	2018
Water intake (Mℓ)	**14 228**	14 754

Human and intellectual capital*

	2019	2018
Employees+	**8 379**	8 837
Hired labour	**129**	274
Service contractors	**2 174**	2 851
Training spend	**R134 million**	R140 million

+ Permanently employed (including fixed term contractors).
** As at 31 December.*

Financial capital

	2019	2018
Equity*	**R3 405 million**	R7 961 million
Borrowings*	**R5 358 million**	R3 000 million

** Externally assured.*

Our working business model

Raw materials

Steel-making process

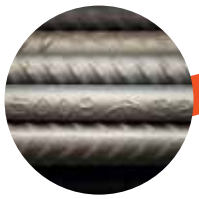
We produce iron and steel, commercial coke and useful by-products in three provinces, in processes that sustain hundreds of thousands of jobs. This is our business model:

ArcelorMittal South Africa is no ordinary business – our company is intimately integrated into the economic and social fabric of South Africa while our products and our procurement of goods and services have far-reaching consequences. Our business model and our execution of strategy require us to demonstrate that we are creating meaningful value not only for investors but for multiple stakeholders including employees, communities, suppliers, government and customers.

We produce three types of products:

Flat steel products

Coke and Chemicals



Long steel products

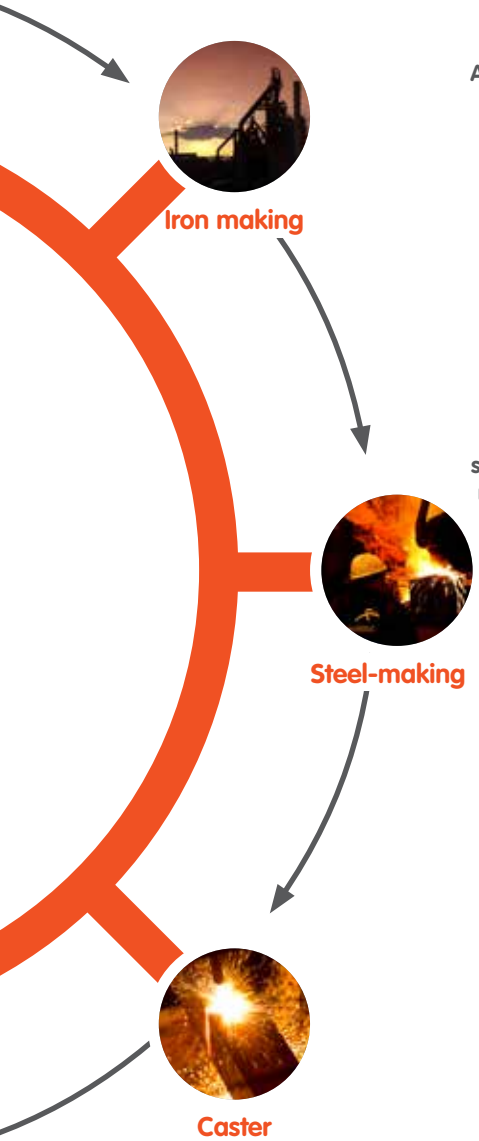
Trade-offs

Following a single isolated year of profitability, our financial fortunes deteriorated sharply in 2019. Our strategy to transform ArcelorMittal South Africa was about nothing less than survival. Working towards ensuring our sustainability, management and the board's strategic decision-making was concerned with making various often extremely difficult trade-offs.

Manufactured and financial capital
Unlike the majority of steel producers, who cut back on capital expenditure when EBITDA turns negative, this year we maintained capital expenditure at close to the levels of 2018. This was manufactured capital-positive but financial capital-negative.

Financial and natural capital
We spent R151 million on environmental controls this year and the board authorised an additional R662 million on such controls (see page 48). This impacted our financial performance but will benefit communities, the natural environment and employees.

Social and financial capital
Our (reluctant) decision to halt operations at Saldanha Works (see page 36) will have a negative impact on communities and suppliers near that plant as well as on employees. In the short term, closing Saldanha and paying affected employees double the legal requirement had a R369 million severance-payment price attached.



Outputs and outcomes

Financial capital

Shareholders, investors, employees

After being profitable in 2018, we again recorded losses in 2019. Our need to preserve cash detracted from our positive creation of, especially, human and social value.

	2019	2018
Revenue*	**R41 353 million**	R45 274 million
EBITDA*	**(R632 million)**	R3 608 million
Profit/(loss) from operations*	**(R2 359 million)**	R2 777 million
EBITDA margin	**(1.5%)**	8.0%
Headline earnings/(loss) per share*	**(299c)**	89c
Headline earnings/(loss)*	**(R3 265 million)**	R968 million

** Externally assured.*

Human capital

Employees, contractors

Measured by our leading indicators, our 2019 safety performance was the best since we began keeping such records. In spite of beginning a resizing of our workforce, our total cost of employment rose this year.

	2019	2018
Safety: LTIFR*	**0.44**	0.53
Safety: Fatalities*	**1**	1
Salaries and wages*	**R4 773 million**	R4 493 million

** Externally assured.*

Manufactured capital

Customers

A weak economy and growing steel imports undermined our creation of manufactured capital.

	2019	2018
Flat steel products sold	**2 659kt**	3 098kt
Domestic market	**2 065kt**	2 242kt
Export market	**594kt**	856kt
Long steel products sold	**1 453kt**	1 393kt
Domestic market	**902kt**	1 095kt
Export market	**551kt**	298kt
Coke and Chemicals		
Market coke	**152kt**	158kt
Tar	**77kt**	81kt

Social capital

Local communities, suppliers and HDSA businesses

Despite extreme financial challenges, our leadership ensured that the company maintained and, in some instances, grew its impact on local communities.

	2019	2018
Socio-economic development*	**R18.0 million**	R14.0 million
Procurement spend	**R33 595 million**	R34 963 million
Taxes contributed	**R348 million**	R394 million
Procurement – QSE and EME	**R2 258 million**	R2 168 million

** Externally assured.*

Financial and human capital
Resizing our workforce contributed significantly towards our achievement of fixed-cost savings of R999 million. Regrettably, some 1 200 full-time equivalent positions will be affected, in addition to those which will be lost as a result of the Saldanha mothballing.

Social and financial capital
Ultimately, our financial sustainability depends on the wellbeing of our customers. In 2019 we continued paying rebates to customers who succeeded in using our products to generate export revenue. The relatively small decline in the total value of rebates paid this year – to R233 million – was a reflection of the difficult trading conditions facing customers.

Social and financial
We reduced the procurement of raw materials as well as goods and services in 2019. This was largely a reflection of the lower demand for our steel but also derived from our drive to reduce supplier (including contractor) costs. Some R1.1 billion less was spent with suppliers of industrial products, services and maintenance (see page 42).

Financial, human and intellectual capital
Our training expenditure declined again this year, from R140 million to R134 million. As a result, our pipeline of technical and artisanal skills reduced. In spite of our financial challenges, we increased the number of training hours received by bargaining-unit employees.

Key sustainability indicators

As a company we have always taken our social and environmental impacts extremely seriously. Here we list our performance against various key natural and social-capital metrics.

Key performance indicator	Unit	Year-on-year change	2019	2018	2017	Definitions	External assurance
Making steel more sustainable							
Percentage of operations certified to the ISO 14001 standard	%	>	**100**	100	100	ISO 14001 is an international standard for environmental management systems	√
Greenhouse gases							√
Direct carbon dioxide (CO_2) – scope 1+	CO_2 eq/t liquid steel	v	**2.03**	2.33	2.34	Direct CO_2 emissions	√
Indirect carbon dioxide (CO_2) – scope 2+	CO_2 eq/t liquid steel	^	**0.71**	0.58	0.67	Indirect CO_2 emissions due to electricity consumption	√
Total greenhouse gas (CO_2 equivalent scope 1 and scope 2)+	CO_2 eq/t liquid steel	v	**2.74**	2.91	3.01		
Total greenhouse gas (CO_2 equivalent scope 1 and scope 2)+	Mt	v	**12.09**	14.84	14.71		
Atmospheric emissions							
Sulphur dioxides (SO_2)	Tonnes	v	**23 142**	26 833	21 623		
Particulates from point sources	Tonnes	v	**1 911**	2 895	3 580		
By-products							
By-products generated	Mt	v	**3.88**	3.90	4.23		
By-products disposed (% of total)	%	v	**29**	34	40		
Energy use							
Electricity (purchased)+	TWh	v	**2.95**	3.07	3.26		√
Total energy consumption+	PJ	v	**123**	139	139		√
Electricity self-generated	MWh	v	**231 117**	289 408	237 154		
Material use							
Iron ore	Tonnes	v	**6 127 100**	7 390 052	7 234 023		
Coal	Tonnes	v	**3 753 892**	4 011 047	4 055 568		
Dolomite	Tonnes	v	**550 636**	756 798	862 169		
Limestone	Tonnes	v	**876 818**	1 038 587	814 589		
Scrap (consumed)	Tonnes	v	**700 121**	779 427	781 490	Externally procured and internally generated and recycled	
Water							
Total fresh water intake	kℓ	v	**14 228 300**	14 753 657	15 504 695		
Fresh water intake per tonne of liquid steel	kℓ	^	**3.23**	2.90	3.16		

** Refer to note on page 50 below CO_2 emission graph.*
+ External assured.

Key performance indicator	Unit	Year-on-year change	2019	2018	2017	Definitions	External assurance
Investing in our people							
Employee numbers+ (permanent at year-end)	Number	v	**8 379**	8 837	8 913		√
Employee and contractor fatalities+	Number	>	**1**	1	3		√
Lost time injury frequency rate (LTIFR)+	per million hours worked	v	**0.44**	0.53	0.66	LTIFR is the number of fatalities and injuries that have resulted in an employee or contractor being away from work for at least one day after the day the accident occurred, per million hours worked	√
Disabling injury frequency rate (DIFR)	per million hours worked	v	**0.84**	0.85	0.87	DIFR is the number of fatalities, lost time injuries and restricted workday case injuries per million hours worked. Restricted workday case injuries are recorded when the injured employee returns to work by their next shift and can complete meaningful tasks, but a restriction placed on them by a medical practitioner limits their ability to perform all of the tasks required of them	
Total injury frequency rate (TIFR)	per million hours worked	v	**6.57**	6.91	7.66	All injuries (fatalities, disabling injuries, lost time injuries, medical aid and first aid injuries) per million hours worked	
Occupational disease frequency rate (ODFR)	per million hours worked	v	**0.0**	0.16	0.18	Occupational diseases (work-related ailments) per million hours worked	
Percentage of operations certified to the health and safety management system standard, OHSAS 18001	%	>	**100**	100	100	OHSAS 18001 is an international standard for health and safety management systems	
Hours of full-time package category employee training	Number	v	**58 137**	80 285	74 266	Number of hours of full-time package category employee training. This includes health and safety training	
Hours of full-time bargaining unit category employee training	Number	^	**269 908**	233 032	308 888	Number of hours of full-time bargaining unit category employee training. This includes health and safety training and on-the-job training	
Investment in employee training and development	Rm	v	**134**	140	154		
Proportion of above focused on black employees	%	^	**94**	93	71		
Investment in bursary scheme	Rm	^	**81**	75	83		
Graduates in training	Number	v	**21**	26	32		
Production learners	Number	v	**497**	559	414		
Apprentices	Number	v	**675**	752	743		

+ *Externally assured.*

Risk and materiality

In 2019 our strategy was principally concerned with combating risks to the company's survival.

The previous year, a far-reaching Business Transformation Programme achieved considerable success in mitigating these risks while, at the same time, the company returned to profitability. However, the transient improvement in our financial fortunes owed much more to international events than to factors over which we had any meaningful control.

The top 10 risks facing our company in 2019 (compared to 2018) were:

1. **Solvency and liquidity**
   2018: Risk 1
2. **Input costs**
   2018: Risk 9
3. **Spread risk**
   2018: Risk 4
4. **Market demand**
   2018: Risk 7
5. **Environmental compliance**
   2018: Risk 3
6. **Operational stability**
   2018: Risk 2
7. **Imports**
   2018: Risk 8
8. **Foreign exchange exposure**
   2018: Risk 5
9. **Input material supply**
   2018: Risk 10
10. **Safety performance**
    2018: Risk 6

Developments in the year reviewed in this report demonstrated that 2018 was, indeed, a singular year and that the risks to our sustainability remained as relevant, and as real, as before.

As such, our most material issues derived from our top risks, including continuing risks to the safety of our people.

Very real risks to our sustainability mounted in 2019 and, as had been the case for several recent years, were the matters that were of the greatest concern – overwhelmingly of the greatest materiality – to our leadership. The very real magnitude and impact of these risks were illustrated by the unavoidable decision, announced in November, concerning the future of our Saldanha Works.

Our mission and values embed safety in our DNA. Safety is non-negotiable and is always placed above any other consideration or issue; any strategy or action that compromises our ability to keep our people safe compromises our values. As a values-driven organisation, embracing any such strategy or action is intolerable.

Considerations of risk inform all of the material issues listed opposite, and our development and execution of strategy. Even our material issue, "Customer focus and support for the downstream", is largely concerned with addressing risk because (as several of our recent integrated reports have stressed) risks to the sustainability of the entities which buy our steel represent real risks to our own sustainability.

Enterprise risk management (ERM)

ArcelorMittal South Africa's ERM process is a formal response to identify, assess and manage corporate risk. It is a structured and systematic process that is integrated into existing risk management structures and responsibilities. The term ERM refers to the process that responds to every conceivable type of risk in every part of ArcelorMittal South Africa, ranging from strategic, operational, compliance and financial to reputational. The concept of ERM proposes one consistent framework for responding to risk. ERM addresses the dilemma that risks do not fall neatly into conventional risk silos, and as such may go unmanaged with serious consequences. The integrated approach followed by ArcelorMittal South Africa allows management to compare risks on common scales and within a consistent framework.

As is customary, the top 10 list opposite reflects management's ranking as at the end of this reporting year (ie December 2019). Although no new or emerging risks entered this ranking from the previous year, contrasting the relative ranking of the risks listed above illustrates how fundamentally the risk landscape shifted within the space of just 12 months.

Our most material issues this year were:


Workplace safety


Liquidity


Fixed and input costs


Optimising our industrial footprint


Organisational restructuring


Environmental compliance


Customer focus and support for the downstream


B-BBEE compliance

Determining materiality

This report attempts to explain how execution of our strategy and our governance practices created value in the year reported – and is likely to do so into the future. To this end we report performance on our four key strategic objectives:

We formulate our key strategic objectives by answering the questions: what are the most material issues we must address to ensure that we are able to create value into the future (essentially, which issues are most material to our survival?), and what are the issues that matter most to our stakeholders?

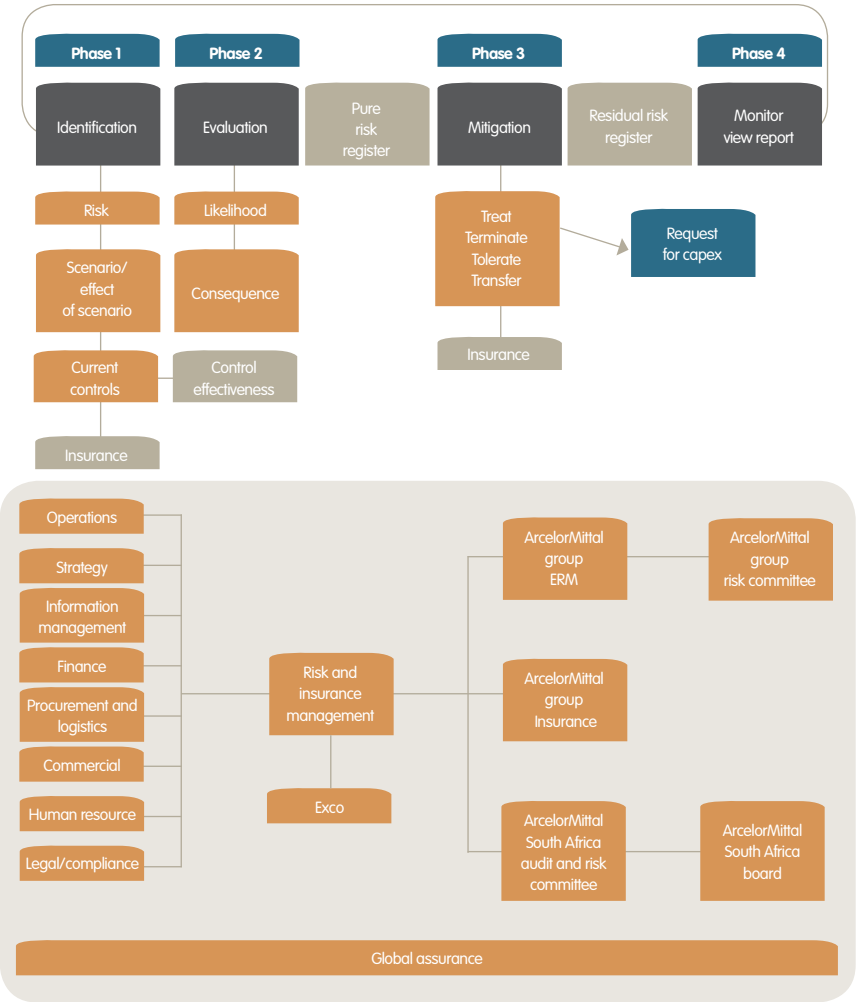
Our ERM process is aligned with world best practices, the King Code on Corporate Governance (King IV), ISO 31000 and ISO 22301 standards and ArcelorMittal group risk management policies and practices. Our policy was revised in 2019 and approved by the board. The objective of our ERM process is to enhance our ability to manage the uncertainties faced by our business, especially in a depressed South African economy. In the long run this will create greater confidence in the company's capacity to seize opportunities, alleviate risks and achieve sustainable successes.

Our board is ultimately responsible for risk management and has an audit and risk committee which oversees risk policies and strategies. Risk management reports, containing, inter alia, the top risks for the business in different categories, are provided to and discussed by the executive committee, audit and risk committee and board. Top risks are also reported to the ArcelorMittal group risk committee via the group enterprise risk manager.

The board bears responsibility for information technology (IT) governance while delegating to management implementation of the IT governance framework. An IT risk management report, containing the top IT-related risks in different categories, is provided to, and discussed at, the audit and risk committee. Concerns about increased cybersecurity threats (including the security of the company's assets, its reputation, intellectual property, employees and customers) receive considerable attention.

A cybersecurity strategy is in effect to improve cybersecurity and reduce risk for the company. To counter evolving cyber threats, a security operations centre (SOC) is now operational and providing real-time monitoring and proactive alerting/addressing of cybersecurity-related incidents.

Risk management process, reporting framework and organisational structures



Risk management is structured around the following functional risk areas: operations (including assets, health, safety and environment), strategy, information management, finance, procurement and logistics, commercial, human resources and legal and compliance. The risk management process is divided into four distinct phases as per namely: identification, evaluation, mitigation and monitor report. The link between the risk database and the capital process, which allows for risk-based budgeting and capital allocation, as well as the combined assurance process, is built into the risk process so as to audit current control effectiveness.

We actively participate in risk and insurance webinars where lessons learned and best practices are shared with facilities within the ArcelorMittal group. These programmes contribute towards the ongoing improvement of our risk management process. To ensure that the risk management process remains current and in line with best practices, several initiatives are pursued by the company.

The following highlights the main enterprise risk management focus areas including continuous risk improvement initiatives in each area.

Application of King IV (risk and opportunity)

The company actively practises the principles set out in King IV. With the risk management process sufficiently embedded, the company pursued the identification and evaluation of the upside (opportunities) as per King IV. In 2019 the in-house developed Enterprise Risk Application (ERA) system was adopted to also cater for the registration of strategic opportunities. These opportunities are evaluated in terms of their likelihood of implementation and their impact, if implemented. The risks that may affect the implementation of the opportunities are also listed and assessed including actions to mitigate the impact. The following highlight some of the opportunities captured in the ERA system:

- Cost base raw material supply
- Thabazimbi iron ore stockpile recoveries
- Commercial market coke co-investment
- By-product monetisation
- Mainline rail localisation.

Combined assurance

Combined assurance audits were done throughout the year with focused audits on the top risks reported to the board in October. The combined assurance process gave the three lines of defence the opportunity to determine if all actions on current controls were still effective to ensure that the risks did not unexpectedly materialise. The process also allows challenging the completeness of future identified actions and due dates.

Global assurance again conducted an audit on the combined assurance process in November. Recommendations from the audit report were discussed and identified improvements were scheduled for implementation in 2020.

Asset risk management

Any steel industry is, by its nature, exposed to asset risks. A comprehensive asset risk management process is in place to assess, prioritise and address these exposures. The risk management process is directly linked to the capital process, to ensure that risk-based capital allocation is prioritised and scrutinised to address exposures that are real threats to the business.

During the past year significant asset risk mitigation actions were executed. Vanderbijlpark Works invested in blast furnace D in June 2019 by spending R215 million on an interim repair with the main focus being the replacement of worn staves. While attending to the blast furnace, additional risks including "scrubber dome corrosion", "slag granulation surge tank and stack structural failure" and "obsolete Honeywell experion system" were also addressed. The following top risks were mitigated in 2019:

- Bar mill control system failure – Newcastle Works
- Stove failure at the blast furnaces – Vanderbijlpark Works
- Flare stack collapse at the basic oxygen furnaces – Vanderbijlpark Works
- Restriction of water supply – Saldanha Works
- Oxygen line failure at coke making – Vanderbijlpark Works.

With the acquisition of the Thabazimbi iron ore mine risks related to the mine were also reassessed. The following highlight the top risks identified and assessed:

- Waste dump slump failure: A slump failure occurred in July 2019 on the southern waste rock dumps at Kwaggashoek east pit. A mine waste-rock dump hazard classification study was done followed by a risk assessment of all moderate to very high hazard waste rock dumps in terms of hazard class, consequence of failure and required mitigation measures.
- Tailing pond failure: The Thabazimbi tailing ponds (dams 1 to 4) have not been in use since the closure of the mine in 2016. An in-depth site assessment was conducted and an action plan compiled to manage the tailings facility to the global ArcelorMittal standard.
- Contamination of underground water (acid mine drainage): An environmental geochemical assessment study was done for the mine in November 2015. The study indicated that acid mine drainage was not a risk at the mine.

As stated, we actively participate in risk and insurance webinars where lessons learned (from major incidents) are shared between facilities within the ArcelorMittal group. From the lessons learned, best practices are shared via Paragon risk engineers with actions identified and implemented, where viable, to mitigate ArcelorMittal South Africa's exposure to similar incidents.

Bow-tie analysis

In 2017 we started to use bow-tie analysis (delineating proactive and reactive risk management actions) in high-risk exposure areas such as casters and coke batteries. Various sessions were held with identified improvement opportunities prioritised and implemented.

Additional bow-tie risk identification sessions were held at areas with high probable maximum loss (PML) exposures. These included the blast furnace in Newcastle Works and the hot strip mill hydraulic and cable basement at Vanderbijlpark Works. Benefits of these exercises were the sharing of improvement initiatives within ArcelorMittal South Africa and the group to minimise or eliminate risks in similar areas.

In 2019 ArcelorMittal South Africa piloted the bow-tie methodology together with group enterprise risk management and Risk Management Solutions (CGE). A two-day intensive training and risk identification session was held in July 2019 at our Vanderbijlpark Works. This involved risk and safety specialists from all of our operational units. Ongoing assistance was provided by CGE with regular steering team meetings held to discuss progress against the pilot action plan with finalisation and decision-making set for end Q1 2020.

Maintenance governance

In 2019 we continued with the implementation of improvement opportunities in the operational maintenance environment. Another philosophy implemented was the "plant restoration programme". This entails bringing the plants back to their original design. A phased approach is taken starting with high-risk plants/areas first. These initiatives contribute towards operational stability, addressing one of the company's top risks.

Project risk management

Project risk management has become part of the risk management culture of the business. All major projects, or projects with significant risks attached, go through a structured project risk management process facilitated by risk specialists. Project risks and opportunities are identified for the different project stages and are updated at a frequency determined in conjunction with project teams during the project lifecycle.

Risk management application database

The internally developed risk management database is used to register all risks identified at ArcelorMittal South Africa. The database was further refined in 2019 with the following changes implemented:

- Alignment of assessment tables between operational and strategic risks
- Additional reporting capabilities
- Adding functionality to capture strategic opportunities
- Expanding security functionality per risk captured.

Business continuity management

Our business continuity management (BCM) policy is aligned with world best practices, King IV and the ISO 22301 standard. The policy's purpose is to provide a basis for understanding and implementing business continuity within ArcelorMittal South Africa and to provide confidence in the organisation's dealings with stakeholders.

Business continuity plans are implemented according to the risk profile of the company. In the information management area, business continuity simulation was done to test the robustness of information management systems.

Insurance

Our insurance department, with the assistance of external consultants and using recognised international procedures and standards, undertakes regular loss-prevention audits of all plants and operations.

Paragon risk engineers again did loss surveys at our three main operational sites in 2019. ArcelorMittal South Africa is working with Paragon to establish a baseline on the following areas of potential risk exposure:

- Conveyor belts
- Electrical rooms and cable tunnels
- Hydraulic rooms.

We have an insurance programme in place which is underpinned by an approved insurance policy which provides insurance cover for losses above agreed deductibles at competitive costs (measured and determined both locally and abroad). Insurance cover is, in principle, risk based, as is outlined in the policy. Our insurance policy was also revised and approved by the board this year.

Good risk management practices and vigilance by operations have reduced insurable incidents to such an extent that the company has been claim free since February 2013. This contributed towards a reduction in our property insurance premium in 2019.

Compliance risk management

In 2015 we began implementing an appropriate compliance framework. This process entailing the establishment of a compliance structure (including the creation of company-wide coordination, capability and reporting templates), appointing compliance champions and raising awareness about the importance of compliance. Using Compliance Institute of SA guidelines, we aim to effectively identify, monitor and report on compliance performance and risks.

While the company has an effective compliance policy, there is still work to be done to ensure effective implementation. Steady progress has been made in improving compliance over the years. Shortcomings identified in 2018 were addressed in 2019 and the number of employees participating in various compliance training interventions increased.

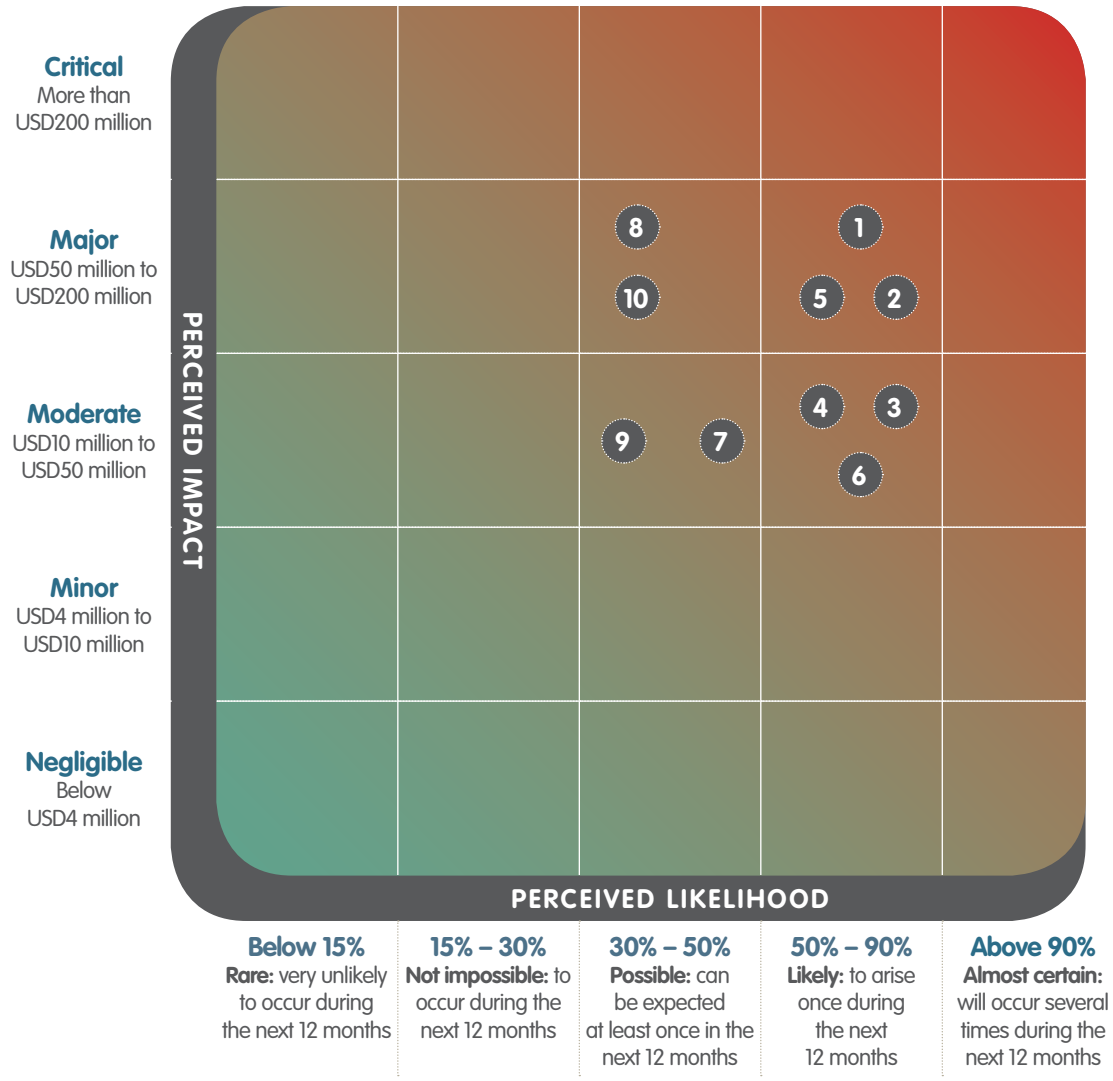
Issues related to competition and pricing issues remain focus areas with added training having been implemented on these issues in certain areas.

Outlook for 2020

In the year ahead we will focus on improving the robustness of risk management, specifically considering the risks and opportunities brought about by our altered footprint. Continuing focus areas will include the implementation of actions to mitigate risks (including top recommendations as per Paragon risk engineers' loss survey reports), using lessons learned from group and other companies to reduce our risk exposures (for example, fires on conveyor belts, fires in electrical and hydraulic rooms and structural failures) and improving and testing our operational business continuity plans to mitigate the impact of disasters.

Most significant risk exposures

The top strategic residual risks as identified through our ERM process, which could impact our sustainability, are detailed here.



RISKS

1 Solvency and liquidity	2 Input costs	3 Spread risk	4 Market demand	5 Environmental compliance
6 Operational stability	7 Imports	8 Foreign exchange exposure	9 Input material supply	10 Safety performance

Measures taken to mitigate our top strategic risks

No	Risk name and context	Control details (Controls currently implemented)	Action details (Actions considered/in process)
1	***Solvency and liquidity*** A decline in markets due to minimal local infrastructure spend, imports as well as a decline in steel prices could lead to severe cash pressure for the company. Sufficient cash/facilities are crucial during the current trying time	◆ Borrowing-based facility implemented ◆ True sale of receivables (TSR) programme ◆ Subordinated loan facility with ArcelorMittal group ◆ Renegotiation of supplier payment terms ◆ Cash initiatives/meetings ◆ Import tariffs implemented ◆ Designation of steel in certain sectors ◆ Flat steel pricing model ◆ Safeguards on hot rolled coil implemented ◆ Resetting of the tangible net worth covenant concluded in December 2019	◆ Expansion of renegotiation of supplier payment terms ◆ Ongoing sale of non-core assets ◆ Ongoing inventory (working capital) management ◆ Business Transformation Programme to drive cost reduction
2	***Input costs*** Higher and rising input costs of material, services or transport not compensated by increases in steel prices could lead to margin squeeze with a resultant bottom-line impact	◆ Contracts in place with key suppliers defining price and or pricing mechanism ◆ Weekly stock planning meetings ◆ Target stock days ◆ Optimise internally generated material (eg scrap) ◆ Avoid take-or-pay contracts ◆ Strategic partnerships ◆ Increased Africa/alternative supply ◆ Leakage prevention initiatives	◆ Focusing on sustainable logistics performance ◆ Hedging of exchange rate on iron ore contract ◆ Raw material price negotiations (eg iron ore) ◆ Engagement with SOEs and government on energy and Transnet Freight Rail (TFR) prices
3	***Spread risk*** An increase in the raw material basket without a concomitant increase in steel prices leads to margin squeeze impacting profitability	◆ Market intelligence on pricing parameters ◆ Fair price basket, as agreed with government, implemented for flat steel ◆ Contracts in place with key suppliers defining price and/or pricing mechanisms	◆ Source cheaper input material ◆ Source better quality metallic material with higher Fe content to reduce costs and increase value in use ◆ Business Transformation Programme to drive cost reduction ◆ Optimisation programme to review goods and service agreements
4	***Market demand*** Global oversupply of steel puts pressure on steel prices. This, together with lower domestic economic activity and local long steel competition contributes to market demand declining	◆ Adequate market intelligence, including: – Monitoring of imports – Arbitration meetings ◆ Possible acquisition of Evraz Highveld structural mill ◆ Import tariffs implemented ◆ Designation of steel in certain sectors	◆ Pursuing growth in Africa Overland market ◆ Safeguard applications being pursued on selected products with high risk of imports ◆ Engagement with key customers to improve service ◆ Actively pursuing downstream trade protection to promote domestic or local manufacturing
5	***Environmental compliance*** Non-compliance with existing, and future, environmental laws and regulations could have a significant impact on the company leading to penalties, prosecution or even plant closures	◆ Projects implemented, eg waste disposal site Vanderbijlpark Works, BOF slag disposal site Newcastle Works, refurbish battery 2 Newcastle Works, baghouses ◆ Ongoing air emission, water quality and waste monitoring as required in licences ◆ Implementation of additional environmental governance meetings	◆ Continuous focus on remediation with capital provision for air/water and waste-related projects ◆ Top projects – Air: – Coke making by-products plant Vanderbijlpark Works – Blast furnace stock house dedusting Newcastle Works – Sinter bag house optimisation Vanderbijlpark Works ◆ Top projects – Water: – Stormwater treatment plant Newcastle Works – Remediation to address ground water pollution Vanderbijlpark Works ◆ Top projects – Waste: – Waste site Newcastle Works – Phase 2 of metallurgical waste disposal site Vanderbijlpark Works

No	Risk name and context	Control details (Controls currently implemented)	Action details (Actions considered/in process)
6	***Operational stability*** Incidents causing operational instability leading to a loss of production are a risk not only to the profitability of the company but will also impact customers, which may prompt them to seek alternative supply, increasing the risk of imports or loss in local market share	◆ Tracking of plant key performance indicators (KPIs) ◆ Reliability programmes (including RCAs) ◆ Maintenance plans ◆ Skills development programmes ◆ Operational procedures ◆ Quality control on input material	◆ Business Transformation Programme with focus on maintenance practices ◆ Implementation of actions to reduce asset risks through prioritised capex plan ◆ Increased focus on top loss survey recommendations ◆ Focus on current control effectiveness ◆ Adherence to company processes and procedures ◆ Plant restoration programme
7	***Imports*** Different competitive actions within the market are threatening our market share. Increased imports, particularly from China, are the main concern	◆ Monitoring of market activities and review of strategies accordingly ◆ Improved customer service and reliability ◆ Feedback from customers and developing account plans accordingly (target market approach) ◆ General import tariffs on 10 products ◆ Safeguards on hot rolled coil implemented	◆ Safeguard applications being pursued on selected products with high risk of imports ◆ Sales team to improve customer service ◆ Supply stability by continued focus on improvements, maintenance and operational expenditure requirements
8	***Foreign exchange exposure*** With a significant portion of EBITDA costs being rand-based and revenue 100% dollar based, the company is exposed to fluctuations in the exchange rate	◆ All full commitments covered for ArcelorMittal sourcing purchases ◆ Protect EBITDA by hedging US dollar sales	◆ Investigate alternative hedge positions
9	***Input material supply and quality of input material*** Input material disruptions due to factors such as insufficient stock holding, TFR inefficiency, supplier disruptions (such as strikes, breakdowns or incidents) or even the quality of input material could result in plant stoppages/disruptions	◆ Internal logistics improvement plan to address turnaround times ◆ Road transport as alternative to rail ◆ Monthly forum between TFR and ArcelorMittal South Africa ◆ Inventory management ◆ Daily weekly and monthly planning meetings ◆ Integrated transport plan ◆ Logistics operations centre with TFR on site ◆ Alternative supply of critical input material ◆ Maintain safety stock levels to serve as contingency	◆ Joint optimisation project between management of ArcelorMittal South Africa and TFR to improve service delivery ◆ Investigation into potential technical solutions at the respective plants ◆ Importation of pellets ◆ Potential reactivation of Thabazimbi iron ore mine to mitigate the high alumina levels from existing supply sources ◆ Sourcing materials from junior miners
10	***Safety performance*** Non-compliance and non-adherence to fatality prevention standards and unsafe acts and conditions may potentially lead to lost time injuries and ultimately to fatalities	◆ Driving the adherence to fatality prevention standards ◆ Shop floor audits ◆ Management presence on the shop floor ◆ Occupational Health and Safety (OHS) Act compliance audits	◆ Proactive management of number of serious occurrences and potential serious injuries or fatalities ◆ Driving fatality prevention standards (FPS) – level 3 at all sites ◆ Establish and implement a caring approach on the shop floor ◆ Drive statutory safety requirement adherence ◆ Safety leadership initiative

Strategy, stakeholders and creation of value

Towards zero harm

MATERIAL ISSUES, TOP RISKS AND KPIs

Workplace safety

TOP RISK

10

KPIs

1 2 3

Key 2019 strategic actions

Campaigns focusing on "man and machine", machine safeguarding and crushing identified and mitigated several thousand risks

Potential serious injuries and fatalities were more actively reported and compliance audits carried out on fatality prevention standards

Outcomes and impacts on stakeholders

In the year we suffered one fatality but other key measures – our total and lost time injury frequency rates – were both the lowest on record

Delivering sustainable profits throughout the steel cycle

MATERIAL ISSUES, TOP RISKS AND KPIs

Liquidity

TOP RISKS

1 2 3 4 7 8

KPIs

4 8 9

Key 2019 strategic actions

Renegotiated our borrowing-based facility, for a duration of three years

Improved hedging strategy meant a turnaround in our foreign exchange exposure

Took decisive measures to staunch working capital drains while adjusting output in response to demand

Converted R1.5 billion in fees owed to the ArcelorMittal group to an interest-free loan

Outcomes and impacts on stakeholders

Shareholders will benefit from a more sustainable, more solvent company; in particular our interventions addressed issues surrounding our status as a going concern

MATERIAL ISSUES, TOP RISKS AND KPIs

Fixed and input costs

TOP RISKS

1 2 3 9

KPIs

4 5 7 8

Key 2019 strategic actions

Initiated a Section 189 process which is anticipated to affect some 1 200 positions

Achieved procurement savings of R361 million

Accelerated our Business Transformation Programme which, in the year, recorded verified savings of USD24/tonne

Made changes to our maintenance systems and structures

Diversified our supply of raw materials, particularly iron ore, towards fixed cost offtake agreements

For Newcastle Works, five road-haulage contracts were collapsed into a single contract

Outcomes and impacts on stakeholders

As in 2018, renegotiated contracts were strongly financial capital positive but negative for some suppliers, at least in the short term

To mitigate the negative impact of rising costs of electricity, transportation and iron ore, ArcelorMittal South Africa engaged the relevant suppliers to renegotiate more cost-competitive terms. Unfortunately, these did not result in the desired outcome, resulting in further job losses including those at Saldanha Works

MATERIAL ISSUES, TOP RISKS AND KPIs

Customer focus and support for the downstream

TOP RISKS

1 4 7

KPIs

4 5 6 8

Key 2019 strategic actions

Took decisive steps to improve on-time deliveries and greater transparency in invoicing

Developed new products while investing R47.4 million to upgrade our galvanising lines at Vanderbijlpark Works

Outcomes and impacts on stakeholders

This year export rebates granted to customers declined by 7% from the R249 million in 2018 – related primarily to economic headwinds affecting the downstream

On-time delivery improved from 61.3% to 69.7%

Here we give an overview of how execution against our key strategic objectives addressed our most material issues and key risks, how our actions impacted stakeholders and against which key indicators we measure our performance.

Being a valued, responsible corporate citizen

Adapting our workforce to a new reality

MATERIAL ISSUES, TOP RISKS AND KPIs	**MATERIAL ISSUES, TOP RISKS AND KPIs**	**MATERIAL ISSUES, TOP RISKS AND KPIs**	**MATERIAL ISSUES, TOP RISKS AND KPIs**
Optimising our industrial footprint	B-BBEE compliance	Environmental performance	Organisational restructuring
TOP RISKS	—	**TOP RISK**	**TOP RISKS**
2 3 6 9 10		3	1 6
KPIs	**KPIs**	**KPI**	**KPI**
4 5 7 8 14	11 12 15	13	14
Key 2019 strategic actions	**Key 2019 strategic actions**	**Key 2019 strategic actions**	**Key 2019 strategic actions**
In November we announced that production at Saldanha Works would be halted, shifting much of that plant's production to Vanderbijlpark Works Our Business Transformation Programme was accelerated, adding verified savings for the year of USD24/tonne Restarted the Vaal Melt shop in January to improve Newcastle Works' footprint utilisation Reorganised our Coke and Chemicals operating unit, from January 2020	In the face of harsh financial challenges we maintained our spend on socio-economic and supplier and enterprise development as well as preferential procurement We also asked the relevant government authorities for relief from the penalties inherent in our procurement of raw materials from a small number of large suppliers who are not subject to the B-BBEE codes of good practice	Increased capital expenditure on environmental controls by 74% to R151 million and budgeted R662 million for 2020, mainly for the coke making by-products plant	Announced the closure of operations at Saldanha Works and a Section 189 process This year investment in training and skills development was reduced slightly, to R134 million
Outcomes and impacts on stakeholders	**Outcomes and impacts on stakeholders**	**Outcomes and impacts on stakeholders**	**Outcomes and impacts on stakeholders**
Closing Saldanha Works will avoid EBITDA losses of between R1.2 billion and R1.6 billion annually Inevitably, this decision had a significant impact on employees and contractors, potentially resulting in a combined loss of approximately 1 300 direct jobs at Saldanha Works West Coast suppliers were also negatively affected, Saldanha Works' dedicated local procurement in the year amounting to R295 million	Community members continued to benefit from our investments in science centres, business parks and our small-enterprise incubator, as did a number of small, historically disadvantaged suppliers Customers received 20% less procurement recognition as a result of our being level 5 compliant	Environmental expenditure was cash negative but benefited communities and employees while supporting our licence to operate. Our investments are expected to find favour with regulators and various levels of government	The Section 189 process initiated in 2019 will have a positive cost impact in the new year The Saldanha Works' closure will also result in significant cost-of-employment savings Employees and contractors felt the negative effects of our restructuring and the Saldanha Works' decision Inevitably, our ability to create social value through our training pipeline – historically a key strength – declined significantly Severance packages relating to Section 189 process will cost some R369 million It is planned that One Organisation will positively impact our work culture and our sustainability

Our board of directors

In 2019 the board met on eight occasions. On these pages we give details of individual directors including the special skills and expertise they bring to the board as well as details of their attendance at meetings of the board and specific committees.

8/8▲ 4/4◆ 2/2

Chairman

Mr PM Makwana (Mpho) (49)

BA (Hons), Postgraduate diploma in Retailing Management
Board value:
Governance, stakeholder relations and transformation best practice
Appointment date: 5 February 2013

8/8 4/5◆ 2/2◆ 4/4◆ 2/2

Chief executive officer

Mr HJ Verster (Kobus) (53)

BCom, BCom Economics (Hons), MBL Executive Management Programme
Board value:
Strategic leadership, steel industry management and financial insight
Appointment date: 1 February 2018

7/8 5/5◆

Chief financial officer

Mr AD Maharaj (Desmond) (47)

MFin, CA(SA)
Board value:
Commercial and financial expertise
Appointment date: 1 October 2018

6/8 2/2▲

Ms NP Gosa (Noluthando) (56)

BA (Hons), MBA, Graduate Diploma in Business Administration
Board value:
Business administration and experience in investment banking
Appointment date: 1 December 2016

7/8 2/2

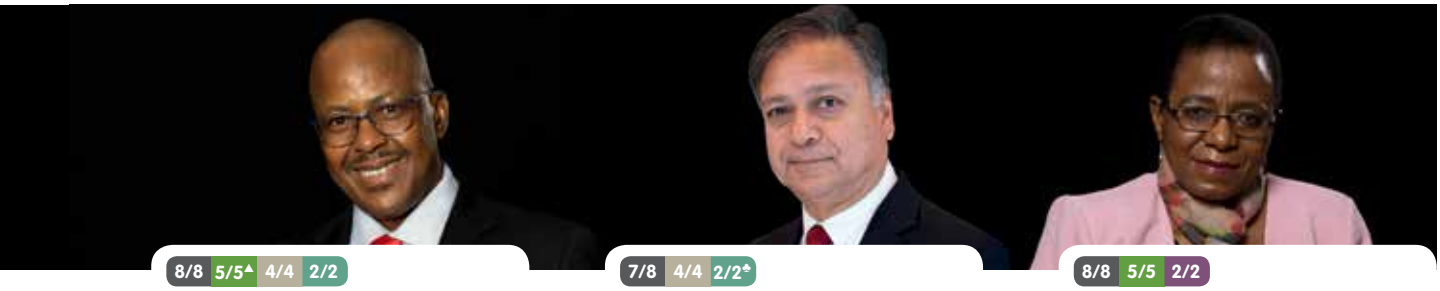
Ms KMM Musonda (Monica) (45)

LLB, LLM
Board value:
Knowledge of legal, entrepreneurial and African business
Appointment date: 12 June 2017

8/8 2/2 4/4

Mr GS Gouws (Gert) (60)

BCom (Law), BCom (Hons), CA(SA), FCMA CGMA, Advanced Management Programme
Board value:
Strategic financial and organisational leadership
Appointment date: 1 November 2017



8/8 5/5▲ 4/4 2/2

Mr JRD Modise (Jacob) (53)

BCom, BAcc, CA(SA), MBA, WBS, AMP
Board value:
Financial, governance, risk management and sustainability best practice
Appointment date: 1 October 2013

7/8 4/4 2/2♣

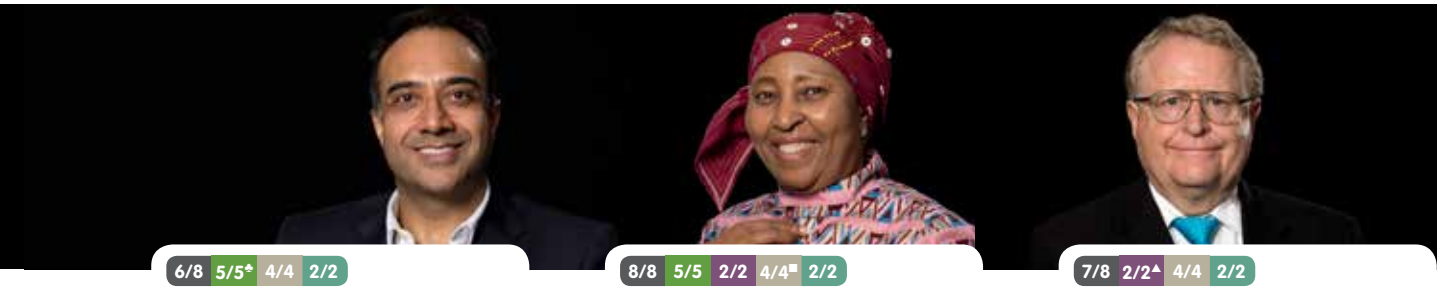
Mr BE Aranha (Brian) (64)

BAppSc, Executive Development Programme
Board value:
Strategy, operational improvement and steel industry management
Appointment date: 31 March 2018

8/8 5/5 2/2

Ms LC Cele (Zee) (66)

BCom, MAcc, Postgraduate Diploma in Taxation, Executive Leadership Development Programme
Board value:
Commercial and tax expertise
Appointment date: 4 January 2016



6/8 5/5♣ 4/4 2/2

Mr R Karol (Raman) (44)

CA (India), MBA (Finance)
Board value:
Experience in finance and steel industry management
Appointment date: 1 December 2018

8/8 5/5 2/2 4/4■ 2/2

Ms NP Mnxasana (Nomavuso) (63)

BCom, BCompt (Hons), CA(SA)
Board value:
Sustainability best practice, risk and finance management expertise
Appointment date: 1 October 2013

7/8 2/2▲ 4/4 2/2

Mr NF Nicolau (Neville) (66)

BTech, MBA
Board value:
High-level strategic and technical insight
Appointment date: 10 September 2015

Board membership at the time of reporting

- Independent non-executive – 50%
- Non-executive – 33%
- Executive – 17%

Board diversity (including international directors)

67% Male
33% Female

Board diversity (including international directors)

- Black – 75%
- White – 25%

Board tenure

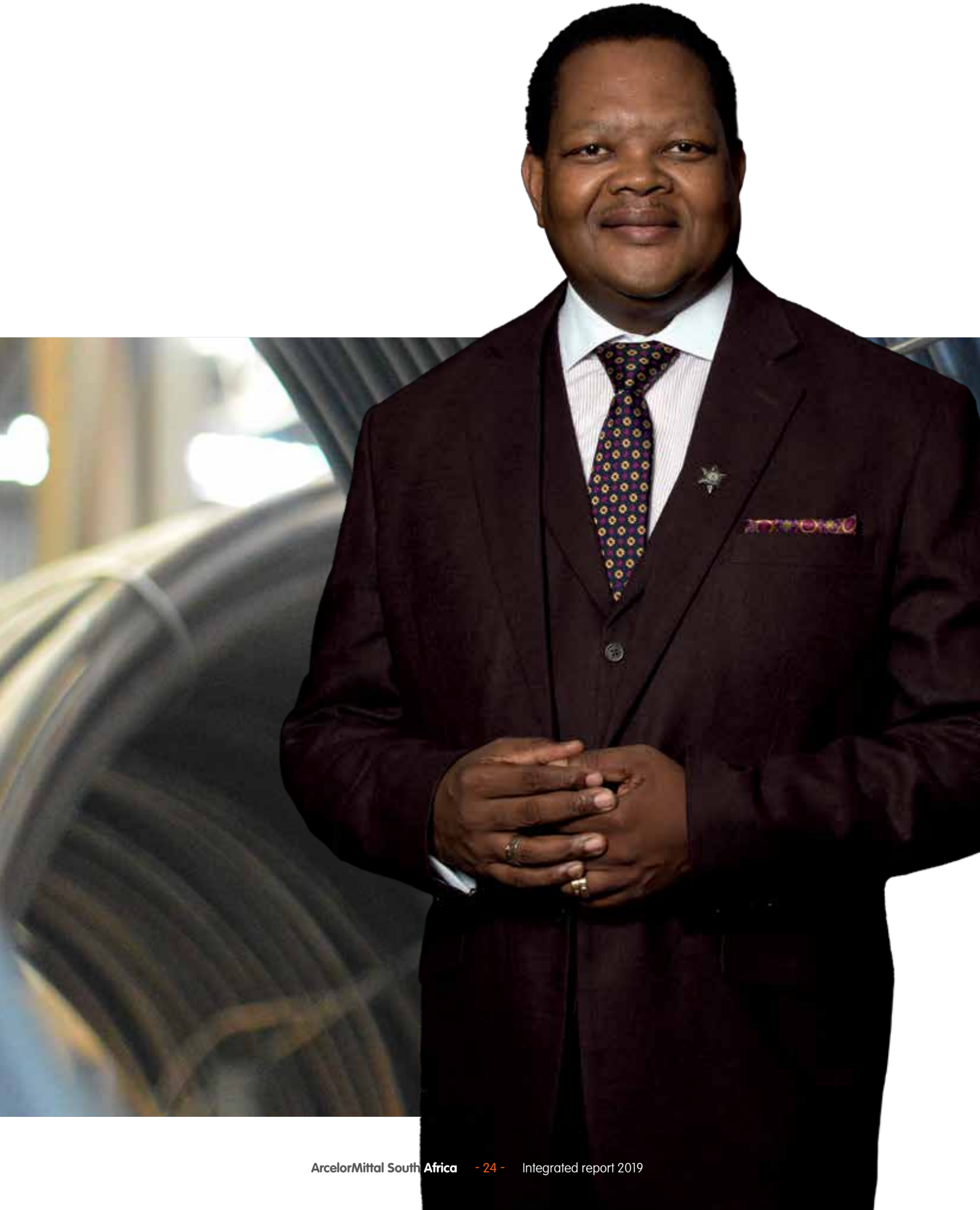
- 0 – 3 years – 50%
- 3 – 6 years – 25%
- 6 – 9 years – 25%

Attendance key

Board	Board
ARC	Audit and risk committee
SHE	Safety, health and environment committee
HRN	Human resources, remuneration and nominations committee
TSEC	Transformation, social and ethics committee

¼ Meeting attendance ▲ Chairman ● Nominations chairman ■ Human resources and remuneration chairman ♣ Attendance by invitation

Message from the chairman



South Africans will come to reflect on 2019 as an exceptionally challenging year economically.

Contrasting sharply with the euphoria surrounding Siya Kolisi leading the national rugby team to a third World Cup triumph and Miss South Africa, Zozibini Tunzi becoming the 68th Miss Universe was the grinding, grim reality of ongoing economic stagnation.

At the end of the year, as loadshedding returned, it was announced that formal employment had fallen by 28 000 jobs in the third quarter of the year. That was shortly after President Cyril Ramaphosa was able to disclose that more than half of a five-year target of R1.2 trillion in private sector investment had already been secured. Meanwhile, tough economic conditions continued to pose a serious challenge to GDP growth. In March 2020, shortly before this report was published, it was announced that the economy had shrunk by an alarming 1.4% in Q4 2019. At the same time, the growing threat from the COVID-19 outbreak only served to weaken South Africa's economic prospects.

Every year, in an annual report such as this, companies' leaders reflect on the challenges and achievements of the past 12 months. Readers also expect corporate leadership to give some insight into the future – how those leaders envisage the way forward for their entities. In this respect, this 2019 ArcelorMittal South Africa integrated report is no different to most. I hope it will give stakeholders adequate insight into our value creation in the year reported as well as our plans to continue doing so into the future.

The journey

This report is just one instalment; it is a single instalment concerning a journey which the company has been on for the past six years or so in our quest to attain cost competitiveness and sustainability.

In last year's report we discussed in some detail our plans to transform ArcelorMittal South Africa. The central theme of this 2019 report – and those of recent years – concerns the key imperative to ensure the financial sustainability of this economically and historically symbolic company for the benefit of shareholders, employees, suppliers and communities.

In unpacking our Business Transformation Programme, in 2018 we noted that this was indeed a journey, a multi-year intervention which management was embarking on with great determination. In this year's report (see, especially, pages 40 to 42) we provide an update on progress achieved through our transformation programme. In 2020 we intend to give further updates, reporting even more substantial improvements and cost savings than we are able to report now.

As far back as 2013, in my message to stakeholders, I wrote: "It is . . . critical that we ensure the sustainability of the business so that we can continue to play a role in the development of the country. Central to the achievement of this goal will be finding common ground with government and other key stakeholders on a range of issues that affect our business."

Back then we realised that we were not going to find such common ground overnight. Achieving that would take time; it would be a journey.

Seeking stakeholder alignment

Since July 2013 we have embarked on annual governance roadshows with the objective of securing alignment between the company and the interests of our shareholders, to hear their views and receive their input while explaining in as much detail as is required the thinking that informs our strategic decision-making.

We have also regularly met with government and regulators, briefing the departments and ministries of trade and industry, economic development, state-owned enterprises and Treasury as well as members of the presidential economic advisory council, briefing and updating them on our company. At the same time, the board and management have engaged countless times with governments and agencies at the provincial and local levels.

In almost all instances there has been common cause and a meeting of minds. I believe this success had everything to do with the openness with which we have constantly discussed the very real threats to our financial sustainability. It has also owed much to the near-universal consensus that a primary steel sector is vital to our country's industrialisation, to employment, communities and, indeed, to the fiscus.

Our environmental stakeholders

I honestly also believe that we are starting to engage in a much more meaningful way with those non-governmental organisations which are concerned with environmental justice and which consistently (and commendably) hold up a lens to the performance of industries such as ours. Whereas our relations with some of these entities used to be characterised by suspicion and, frankly, unnecessary obfuscation on our part, today we are committed to completely changing the tenor of our dialogue with these important stakeholders.

In 2020, as part of the global industry, we have just a decade to achieve the targets of the Paris Agreement on greenhouse gas emissions. As a company we are alive to our responsibilities on climate change, as the discussion on page 49 reflects.

It is no secret that as a company we face some very substantial environmental-compliance challenges. The board and I are mindful of our responsibilities in this regard and we are confident that everything within the company's ability is being done to address these challenges. While steel-making, at least in its present form, has an undeniable impact on our natural capital, our environmental team and management deserve greater credit than they typically get for some very significant achievements in recent years. Also, directors have not shied away from committing very large sums of money towards improving our environmental performance (see page 48).

Volatility the new normal

Today uncertainty, volatility and constant change are the new normal, termed by many corporate thought leaders a "VUCA" strategic era – an era in which most boardrooms are striving to achieve leadership in a volatile, uncertain, complex and ambiguous environment. The steel industry globally and, especially in South Africa, is right in the eye of this "VUCA" storm. Informing this perfect, unpredictable storm are continuing imports of unfairly subsidised steel, poor downstream demand and an unprecedented, deepening disconnect between the all-important raw material basket and realised steel prices.

Transforming ArcelorMittal South Africa is all about changing our business into one which is able to weather the inevitable vagaries of the steel cycle, one which can and will survive extended periods of economic stagnation while creating value for customers and society.

Until recently, this country was one of only a few possessing a primary steel capability which had not taken steps to curb the import of blatantly unfairly subsidised steel. Three years ago, government instituted such trade remedies, including safeguards and the designation of local steel, as were then essential to our survival.

However, our financial sustainability was never going to be achieved only through the efforts and interventions of others. Even despite the brief respite that improved trading conditions provided in 2018, and as the company embraced transformation, directors and management remained concerned about ArcelorMittal South Africa's status as a going concern.

Simply stated, it was apparent that our company's cost per tonne of liquid steel measured per full-time equivalent position was unsustainable. Which is why, this year, directors authorised the commencement of a Section 189 process which, regrettably, will result in the loss of some 1 200 positions.

From May to September, the CEO, Mr Brian Arana (representing the majority shareholder) and I met repeatedly with government stakeholders, seeking additional relief measures which we believed were within the state's gift. One positive outcome to these many, often multilateral, discussions was the successful conclusion, with the Industrial Development Corporation, of negotiations securing the future of Evraz Highveld structural mill. However, as is now widely understood, our discussions did not yield outcomes on the scale which we had hoped for.

Going concern

This year, when it became apparent that the support from government which the board and management had sought relating to uncontrollable costs in the South African context would not be forthcoming (at least in the quantum necessary), we were forced to take the decision to wind down operations at Saldanha Works. This is a decision with which so much of this report is quite appropriately concerned.

The board and I were convinced that there was simply no other option, that failing to take this painful decision would almost certainly imperil ArcelorMittal South Africa's ability to continue as a going concern. Our headroom on the matter of going concern had shrunk to such an extent.

The reality facing directors was simply that stark: a choice between a reduced ArcelorMittal South Africa or none at all.

Appreciation

Membership of our board remained unchanged during the year. This continuity of leadership was a great advantage as directors collectively grappled with many extremely weighty issues. I thank my fellow board members and company management for the diligence with which they have engaged with these issues and the many tough decisions which they had to make.

I also wish to thank all of our stakeholders, especially our employees and suppliers who, in many instances, bore the brunt of the unavoidable sacrifices made in 2019. Our gratitude is also extended to our majority shareholder, the ArcelorMittal group, our strategic B-BBEE partners, Likamva Resources, and all investors for their continuing belief in our business.

Similarly, we record our appreciation towards various government leaders including Trade and Industry Minister Ebrahim Patel and his team as well as presidential economic advisors, particularly Trudi Makhaya and Anthony Costa, for their interest in our great company.

Outlook

2020 promises to be a year of many more sacrifices, of which the enforced nationwide coronavirus lockdown will probably be the most severe. Shutting our operations will test the mettle of our company and our people to the extreme but I have no doubt that all at ArcelorMittal South Africa will rise to the challenge.

As a board we reaffirm our utmost commitment to joining with management, employees, suppliers and stakeholders in doing everything possible to continue and expedite the process of recovery – to the benefit of our communities, our economy and our country.

Mpho Makwana
Chairman

Message from the chief executive officer

The year 2019 demonstrated sharply that the improved performance of our company and the world steel industry in 2018 was merely a temporary respite from challenges of the last several years.

2019 witnessed a sudden and steep downward correction in international steel prices while the costs of iron ore in particular rose substantially. From a global perspective, the overwhelming majority of steel makers struggled to remain profitable.

In our sector we have become accustomed to speaking about the inevitable "steel cycle". We have also become accustomed to believing in a broad correlation between steel prices and the cost of raw material inputs. In 2019, as world steel markets experienced their worst 12 months since the 2008 global financial crisis, evidence mounted that many of the assumptions on which our thinking and planning had been based, were no longer valid.

An unpredictable future

Today the intervals between the highs and lows of the steel cycle are contracting and becoming more unpredictable than ever.

Already, in 2018, management had anticipated that the favourable conditions experienced that year would be short-lived, unveiling then our *Transformation for Sustainability and Growth* strategy. What was unexpected was just how temporary those improved conditions would be.

The improvement programmes we launched two years ago turned out to have been absolutely essential and not begun a moment too soon. Had we not started down the path of cutting costs and fundamentally improving our processes, our performance would have been considerably worse than we report here.

Despite the gains made, this year forced our leadership to take even more drastic action. These decisions were not taken lightly but without them our survival would not only have been threatened, it would soon have become impossible.

A best-ever safety performance

The single fatality suffered in 2019 was deeply unfortunate for all at ArcelorMittal South Africa. In contrast, however, this year returned the best safety performance since we began keeping such records. I applaud our safety professionals and all who work to safely and proudly produce our steel products.

Declining markets and depressed prices

For four years we have largely operated in a regulated environment. Our maximum domestic flat steel prices (70% of our sales in 2019) are set not by ourselves but by independent arbiters guided by a basket of prevailing international prices.

Our long steel products have recently witnessed the emergence of opportunistic new producers whose business rationale also owes a great deal to regulation in the form of restrictions on the export of steel scrap and preferential business funding structures.

In 2019 we were by no means alone in the financial challenges we experienced; our customers were hurting as much as we were. Bankruptcies, job losses, falling orders and reduced credit line availability plagued the downstream buyers of our steel.

Remarkably, even as our financial performance improved in 2018, domestic steel consumption deteriorated once again. This year things became even worse as South African apparent steel consumption fell to its lowest level in 12 years.

As the geopolitics of "trade wars" intensified, our export markets continued to be subject to dumping by international producers – most of them unfairly subsidised – who shipped steel to East and West Africa in increasing volumes. These imports are often produced under conditions which the rest of the world has moved to restrict and even prohibit.

Reforming an unsustainable cost base

With almost all uncontrollable factors counting against us – including unaffordable and internationally uncompetitive regulated tariffs for electricity, rail and port cost, increased loadshedding and worsening rail reliability, it was imperative that we acted decisively to fundamentally reform a cost base which had become unsustainable.

As I write in early 2020, the prospects for economic recovery are unfortunately slim, as steel demand continues to contract, capacity utilisation falls and businesses throughout the value chain are severely strained. The lockdown announced by the president in March was set to have a profound impact on every aspect of our business – and on our customers and our economy.

Against this background, our Business Transformation Programme (page 41) made good progress in 2018 and in the current year. In reducing our head count across our various sites, as leaders we had no choice but to cut a fixed cost base which was out of kilter with the realities of a depressed and shrinking market.

The decision to close Saldanha Works was unavoidable. The plant has almost always been a centre of excellence and its ceasing of operations is by no means a reflection on the performance of management and employees there. All who have worked at the plant in its relatively short history should take pride in having been part of a steel plant which was well run and which consistently delivered. However, the reality is that Saldanha Works had lost its cost advantage which resulted in it no longer being competitive in international export markets.

Engaging with stakeholders

In 2019 we constructively engaged with the leaders of various government departments, parastatals and organised labour on addressing the profound challenges to our sustainability which were beyond our control. Unfortunately, these discussions did not yield the benefits envisaged as we continue to be negatively impacted by unaffordable regulated tariffs.

For the year reported, 70% of our R3.8 billion capital expenditure authorised was allocated to our upstream and environmental controls. Although we invested R213 million in upgrading our galvanising lines at Vanderbijlpark Works, there was little capex available for improving our downstream processes to produce more value-added products.

This year (see page 43) we cut back on production at all sites. This was purely in response to depressed demand. Going forward, we will continue to adjust our capacity utilisation to meet demand. This approach will require a clear focus on our total cost of employment per tonne of liquid steel (TCOE/tonne). After many years of above-inflation wage increases and dwindling demand, we have a fixed cost base which is simply uncompetitive.

We need to ensure that we remain the economic backbone that ArcelorMittal South Africa has represented for decades. To this end, we need to become a more agile, more responsive organisation which is substantially more productive, more efficient and more attuned to customer needs. In 2019 we definitively set ourselves on a course to becoming such a company.

The Saldanha Works decision was the most notable step taken this year in terms of restructuring our footprint but the process of reviewing our assets will continue. So will the Business Transformation Programme with conscientious efforts being made to cement the gains achieved while accelerating this process.

Outlook

At the time of reporting, South Africa had recently declared a state of emergency relating to the coronavirus outbreak and most economists agree that the world faced the real prospects of recession. For South Africa, which was already suffering recession, the steel industry will be impacted but how severe and long remains uncertain at this stage.

We will therefore vigorously pursue the creation of what will be nothing less than a new company: "One Organisation", a more streamlined, more nimble business which has a greater control over its own destiny. How we report in our next integrated report will reflect this new thinking and structure, with a reduced emphasis on the performance of individual plants and processes.

In H1, the One Organisation process will focus on cultural change, on simplifying decision-making and removing internal silos while fostering accountability and a more entrepreneurial ethos.

In H2 the focus will be on further concentrating on our footprint and streamlining processes. I should mention here, however, that the closure of significant long steel product processes, including primary steel-making at Newcastle Works, is not anticipated at present. Stakeholders will be kept abreast of what I have no doubt will be an exciting and, eventually, fruitful process of operating model restructuring.

We will also continue to pursue our commitment to increasing our cost-linked raw material supplies. Similarly, we anticipate being able, in a year's time, to report further progress on boosting our energy efficiency and improve our co-generation opportunities.

Guiding our creation of One Organisation is a new credo which, internally, we describe as "the 6 Cs": cash, cost, customers, collaboration, climate and communication.

Preserving cash and striving for liquidity have been top of mind of our management team for several years – and will continue to enjoy the utmost priority.

ArcelorMittal South Africa is a company with many wide-ranging economic linkages and we believe that through collaboration with all like-minded entities we have a great deal of work to do to get our country working again.

For too long the third of these Cs – customers – has been neglected. I am pleased that our on-time delivery rate improved significantly this year – but it is still far from being good enough.

In March, just as we were about to publish this report, a three-week countrywide lockdown was announced. We fully accept that this drastic and unprecedented step was both unavoidable and absolutely necessary. We therefore immediately began shutting down all plants with almost all employees remaining at home. The duration of the lockdown, and its lingering impact on an already damaged economy and steel demand, remain unclear. However, I can assure all stakeholders that during this period of enforced production downtime, my leadership team, the board and I will be redoubling our efforts to continue our company's recovery.

Kobus Verster
Chief executive officer

Message from the chief financial officer

On these pages a year ago I hailed a much improved financial performance by our company, an outcome which represented five consecutive quarters of profitability.

This achievement was certainly worth celebrating given our company's considerable losses over multiple years.

However, I also cautioned then that in 2019 international steel prices – to which our fortunes are intimately tied – were likely to soften and that raw material costs remained unpredictable. (In the event, no-one could have predicted the disastrous failure at one of the world's largest iron ore mines, in Brazil, and the dramatic impact this would have on the price of one of our biggest input costs.)

As the chief executive officer has noted, the world steel cycle is shortening and becoming more unpredictable than ever before. While we enjoyed a buoyant 2018, the company's leaders were under no illusion that 2019 was likely to be another exceptional year, for us and for the industry globally. Concerted, ongoing action would be needed to ensure our ability to consistently generate profits.

In looking forward a year ago, I noted the achievements then of our Business Transformation Programme and predicted that the process would be further expanded in the new year. As you will read elsewhere in this report, we achieved a great deal in embedding efficiencies into our various processes this year. These achievements were substantial and sustainable. However, as events in 2019 demonstrated all too starkly, transforming our business required even more robust, far-reaching actions.

At the same time that world steel prices declined and local steel demand remained hostage to the fortunes of a stagnant economy, various countries continued to dump (a term I use advisedly) steel products in South Africa. This despite duties and safeguards whose effectiveness was brought into question by a 15% increase in 2019 in imports of primary steel.

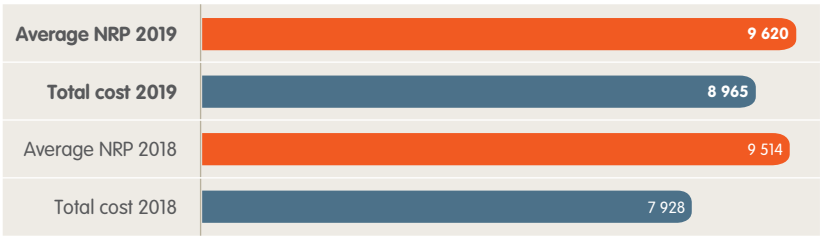
This year we embarked on two difficult processes which will have the effect of, ultimately, significantly rightsizing our cost base and our footprint, to become a smaller company which is able to produce world-class steel profitably for a struggling domestic market. I refer here, of course, to the Section 189 process and the decision to close our Saldanha Works operations.

Results for the year

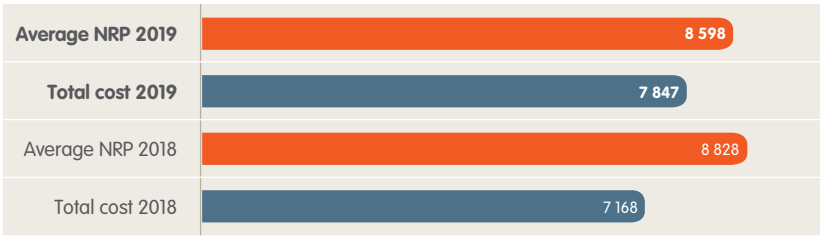
This year revenue decreased by 9% to R41 353 million. This stemmed from drops in domestic and export sales volumes of 11% and 1% respectively. The fact that South African apparent steel consumption fell to its lowest level in a decade only underlined the extremely weak state of the economy and the financial strain facing our customers.

International sales prices (which determine both our export and domestic realised prices) fell by an average 15% but this impact was largely neutralised by a weakening in the value of the rand against the US dollar.

Flat steel (R/t)



Long steel (R/t)



Although we had more commercial coke available for sale as a result of our reduced steel-making activities, our Coke and Chemicals operation's revenue was slightly down on that of the previous year because of lower market coke prices of 10%. This was the result of lower demand from especially the ferrochrome industry.

As is described elsewhere, raw material costs increased sharply in 2019 after relatively modest rises in 2018. In the previous year our raw material basket represented 50% of total costs. This increased to 51% in 2019 with iron ore prices, rising by 22%. I am satisfied that our procurement team's efforts to mitigate our exposure to steep and unpredictable iron ore cost increases were well thought through and well executed. In 2020 we will more actively pursue our efforts to increase our raw material self-sufficiency.

Measured in rand terms, our raw material basket cost rose by 12%. Despite sharply lower sales volumes, raw material price increases, particularly iron ore, had a R997 million impact against 2018. This fact underscored the twin imperatives of restructuring our fixed cost base and achieving greater control over our variable input costs. Clearly, the traditional "cushion" or spread between our raw material basket and net realised prices – a cushion which we and much of the world's steel industry has relied on – can no longer be taken for granted.

Our Business Transformation Programme achieved outstanding results this year (see page 40) but these strides were largely negated by the impact of more costly raw materials and administered prices (see pages 42 and 45), our failure to achieve meaningful relief on the latter being a major disappointment of the year. Such was the impact of raw material and tariff increases that our cash cost of liquid steel produced increased by 12% to R8 615 per tonne. In 2019 fixed costs declined by R999 million, an achievement which owed more to the efforts of our Business Transformation team than the effects of the Section 189 process.

Non-EBITDA developments

In 2018, such was the short-term change in the company's fortunes that a total impairment value of just R10 million was recognised. Inevitably, the decision regarding the future of Saldanha Works this year translated into an impairment of R294 million. As will be appreciated, this was an unavoidable once-off item. A further impairment of R99 million derived from our closure of Vanderbijlpark Works' tinplate line while a strengthening of the rand in December 2019, combined with weak long steel prospects, entailed a R1 087 million impairment of Newcastle Works. Similarly, once-off costs relating to the Section 189 and Saldanha Works' processes amounted to R234 million and R396 million respectively.

After adjusting for the net impairment and loss on disposal of assets of R1 401 million (R402 million net gain in the previous year), headline earnings decreased from a profit of R968 million to a loss of R3 265 million.

Cash generated from operations of R423 million was R1 859 million lower than in 2018 and our net borrowing position weakened to R3 370 million (2018: R475 million) after the Macsteel sale but it deserves to be noted that R1 940 million in cash was released from working capital through the stringent application of cash management initiatives.

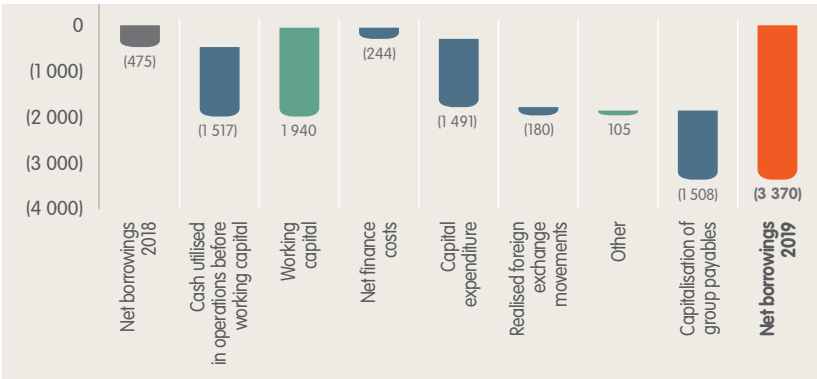
Unlike other peer companies which eliminate capital expenditure when EBITDA is negative, we showed our continuing commitment to investing in our production capability and in mitigating our environmental impacts by spending a cash flow amount of R1 491 million on capex. As was the case in 2018, this commitment negatively impacted our cash results but will buttress the future performance of a leaner, more sustainable ArcelorMittal South Africa.

Financing costs reduced this year by R1 330 million. (In 2018 we recorded a financing cost increase of R885 million over the previous year, which derived mainly from foreign exchange losses at the end of the year.) This year a net foreign exchange gain of R128 million was achieved.

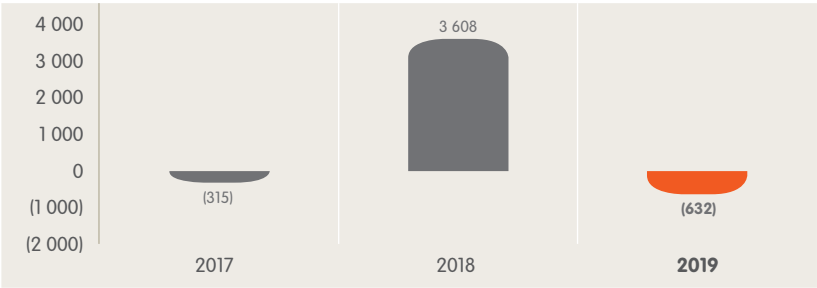
A notable achievement in the year reviewed was the renewal of our borrowing-based facility (BBF) as well as the (favourable) renegotiation of the facility covenant. The new BBF, which will be in force for three years, was significantly oversubscribed, a pleasing vote of confidence in the company and leadership's transformation strategy. As was previously communicated, in 2017 the scale of impairments at the time meant that the company was in breach of its covenants, a situation which was addressed by lenders agreeing to a covenant "holiday" and the company taking steps to strengthen its balance sheet.

In strengthening our balance sheet, the support of the ArcelorMittal group cannot be underestimated. Their ongoing commitment to ArcelorMittal South Africa is a similarly positive sign of confidence in our prospects. In 2019 alone, the group converted R1.5 billion in fees and accrued interest into a limited period interest-free loan (subordinated in favour of BBF lenders). This latest action brought total group loans to the company to some R4.2 billion.

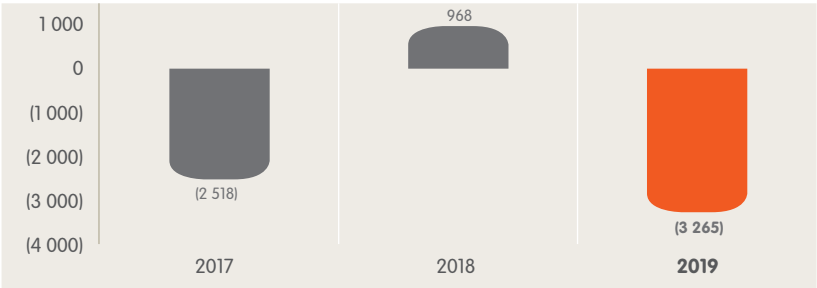
Net borrowings bridge 2018 to 2019 (R million)



EBITDA (R million)



Headline earnings (R million)



Outlook

We embark on 2020 with cautious optimism. The Business Transformation Programme – although still ongoing – has already demonstrated outstanding results and these will bolster our sustainability. The human and social consequences of the Section 189 and Saldanha Works decisions are deeply regretted but the effects of these interventions will have important, beneficial impacts on our business sustainability.

Unrealistic electricity tariffs and increases threaten the survival of not only ArcelorMittal South Africa but that of whole swathes of industry and commerce, as does the continuing spectre of load curtailment. We will continue to engage with state-owned entities – Eskom and Transnet – on unaffordable tariffs, reliability and consistency of performance.

The stagnant local economy, high regulated costs, price volatility of key input materials and the potential slowdown of the global economy, particularly given the effects of COVID-19, requires us to be more selective in the allocation of capital expenditure projects, monitor customer credit profiles more closely while continuing to drive the Business Transformation Programme deeper into the organisation while sustaining operational stability.

Desmond Maharaj
Chief financial officer

2019 highlights and five-year performance review

In addition to the information disclosed in the chief financial officer's report, here we detail key indicators that inform our strategic objective of 'delivering sustainable profits through the steel cycle' (see also page 40).

		2019	2018	2017	2016	2015
Revenue	Rm	**41 353**	45 274	39 022	32 737	31 141
EBITDA	Rm	**(632)**	3 608	(315)	190	(809)
By segment: Flat	Rm	**(574)**	2 670	264	(392)	(1 269)
Long	Rm	**(369)**	808	(945)	286	(348)
Coke and Chemicals	Rm	**250**	370	365	172	427
Other	Rm	**61**	(240)	1	124	381
EBITDA per tonne	R/t	**(154)**	803	(74)	47	(196)
EBITDA margin	%	**(1.5)**	8.0	(0.8)	0.6	(2.6)
Headline earnings/(loss)	Rm	**(3 265)**	968	(2 518)	(2 589)	(5 370)
Production (tonnes of liquid steel)	000 tonnes	**4 411**	5 092	4 910	4 771	4 839
Flat	000 tonnes	**2 897**	3 561	3 458	3 221	3 145
Long	000 tonnes	**1 514**	1 531	1 452	1 550	1 694
Sales	000 tonnes	**4 112**	4 491	4 257	4 087	4 131
By segment: Flat	000 tonnes	**2 659**	3 098	2 995	2 736	2 678
Long	000 tonnes	**1 453**	1 393	1 262	1 351	1 453
Sales by market						
Domestic	000 tonnes	**2 967**	3 337	3 302	3 275	3 039
Africa Overland	000 tonnes	**200**	221	204	218	236
Blue-water exports	000 tonnes	**944**	933	751	594	856
Net cash/borrowings	Rm	**(3 370)**	(475)	(3 262)	(290)	(2 865)
Capacity utilisation (liquid steel)	%	**67.9**	83.5	81.0	78.2	70.0
Productivity – tonnes of HRC equivalent/total FTE	t/FTE	**472**	496	478	471	472

Five-year benchmarking

	2019	2018	2017	2016	2015
EBITDA margin (%)					
ArcelorMittal global*	**7.4**	13.5	12.2	11.0	8.2
ArcelorMittal South Africa#	**(1.5)**	8.0	(0.8)	0.6	(2.6)
EBITDA/tonne production (USD/t)					
ArcelorMittal global*	**61**	122	99	75	62
ArcelorMittal South Africa#	**(9.9)**	60.6	(4.8)	3.2	(15.4)
USD/t cost (revenue less EBITDA)					
ArcelorMittal global*	**774**	784	707	602	689
ArcelorMittal South Africa#	**707**	701	601	541	606
China import prices, ArcelorMittal South Africa costs and prices (USD/t)					
China hot rolled coil (price)ϕ	**673**	775	671	483	414
Vanderbijlpark Works hot rolled coil (cash cost)#	**556**	547	530	386	445
Saldanha Works hot rolled coil (cash cost)#	**571**	553	502	433	441
ArcelorMittal South Africa hot rolled coil (domestic prices)	**688**	760	639	464	500
China rebar (price)†	**640**	700	631	464	408
Newcastle rebar (cash cost)#	**585**	615	597	444	476
ArcelorMittal South Africa rebar (domestic prices)	**538**	602	558	435	443
International raw material basket (USD/t)					
– Flat†	**307**	296	277	217	196
South African raw material basket (USD/t – including transport)					
Flat					
– Vanderbijlpark Works#	**306**	315	321	216	249
– Saldanha Works#	**411**	350	310	224	263
Long					
– Newcastle Works#	**357**	356	338	247	247

* *ArcelorMittal global reported figures*

\# *ArcelorMittal South Africa's previously published results*

ϕ *USD/t selling price into South Africa. China import price equals China export (FOB/t)[1] plus sea freight, trader margin, South African logistics and safeguard costs*

† *Platts/MB*

Our Saldanha Works story

For a decade Saldanha Works' reliance on export markets to which subsidised steel has enjoyed unfettered access, and the plant's exposure to foreign exchange swings, threatened its sustainability.

In 2018 Saldanha Works' financial performance was interpreted in some quarters as giving reason for optimism. Higher international steel prices and an exceptional margin between our key raw materials basket (RMB) and realised sales prices meant that Saldanha Works returned an EBITDA contribution of R606 million in that year. However, as the graph on page 6 makes clear, the 2018 RMB/price spread was a most unusual occurrence.

In 2019 the board acknowledged that, given the failure to secure substantive and decisive intervention on our company's key input costs, Saldanha Works' sustainability could no longer be assured – nor indeed that it was likely. Directors reluctantly agreed that the plant's operation threatened the entire viability of ArcelorMittal South Africa.

Saldanha's Works' closure was by no means the fault of its management or employees. Over the past decade, fixed costs, particularly manpower expenses, were exceptionally well contained (between 2010 and 2019, salaries as a percentage of Saldanha Works' fixed costs fell from 32% to 25%).

The business case which informed the decision by our company and the Industrial Development Corporation more than two decades ago to establish Saldanha Works, a cutting-edge combination of the Corex and Midrex technologies, was sound, even when viewed through the lens of considerable hindsight. That business case was proven through much of Saldanha Works' existence.

The business case was based on a few basic premises:

- Close proximity to an iron ore export terminal with offtake at minimal cost to the miner, as well as affordable access to imported iron pellets, as and when required
- Easy shipping access to (especially seaborne) export markets
- Competitive input costs including iron ore, electricity and rail and port.

Soaring iron ore costs

Between 2010 and 2019 Saldanha Works iron ore costs more than tripled. This almost unprecedented rise derived from Saldanha Works' reliance on a single iron ore supplier, and from the technology within the plant.

Until 2016 Saldanha Works incurred different (lower) prices for its iron ore than those paid by Newcastle Works and Vanderbijlpark Works. From 2016, however, our West Coast operation was obliged to pay export parity-based pricing (essentially the price the miner could obtain for exporting its raw iron ore, without any local beneficiation or value add to the national economy).

The post-2016 pricing regime with a near-monopoly supplier entailed our company paying a premium for "lump" iron. Most primary steel producers process both lump iron ore and "fines". At Newcastle Works and Vanderbijlpark Works, fines received are processed at dedicated facilities known as sinter plants. However, Saldanha Works' technology is such that it was never designed to process fines and so has no sinter plant. In the prevailing ore pricing environment, this placed it at a distinct cost disadvantage – in 2019 in the order of some 18% relative to fine ore.

In the year reported, iron ore represented 40% of our company's raw material basket (2018: 37%). In the case of Saldanha Works, this was 53% (2018: 46%).

Coal costs

Until fairly recently, local supply was plentiful and cost-effective. ArcelorMittal South Africa sourced its coal mainly from the Grootegeluk colliery (owned by Exxaro) near the town of Lephalale in Limpopo. With Grootegeluk we had an offtake agreement of some 460 000 tonnes per annum. Then, with the phased commissioning of Eskom's giant Medupi coal-fired power station, in the vicinity of Grootegeluk, this allocation reduced to 360 000 tonnes per annum and then to 340 000 tonnes per annum.

Exxaro's reduction in our "quota" forced the company to source supplies from alternative suppliers, particularly in the Emalahleni region of Mpumalanga. These deposits are on a considerably smaller scale than that of Grootegeluk and are more costly to mine. In the case of Saldanha Works, railage costs were so punitive it was more affordable for the company to ship Mpumalanga coal to Richards Bay by rail and then to transport it by sea to Saldanha Works.

While the plant's iron ore costs have risen more than fourfold, since 2009, Saldanha Works' coal costs have escalated by 177%.

Electrical shocks

Like most of South African manufacturing, Saldanha Works relies on Eskom for the bulk of its energy. In the past decade the plant's electricity cost has risen by 218%. Added to this, prices have been steep, often excessive, increases in port handling fees. In addition, Saldanha Works relies heavily on the use of expendable electrodes, the cost of which more than tripled between 2017 and 2018.

Sales prices

In 2019 some 53% of Saldanha Works' sales were within South Africa, the balance being exported, by sea, to markets in west and, especially, east Africa (export markets which it was primarily built to serve). Growth in steel consumption in these regions has been pedestrian and, unlike South Africa, imports there of unfairly subsidised steel are not subject to tariffs or other measures. In the important Kenyan market, for instance, Chinese imports represent 25% of total steel sales.

From 2018 to 2019, Saldanha Works' average net realised export price declined by USD69/tonne (USD610/tonne to USD541/tonne). And this one-year performance was not exceptional – in each year from 2015 to 2019 (with the exception of 2018) Saldanha Works' export sales were EBITDA negative, as were domestic sales to a single large customer.

The board was extremely loath to authorise Saldanha Works' mothballing but was mindful of the fact that the company was near the limits of its funding and that the financial drain which Saldanha Works represented threatened the entire ArcelorMittal South Africa. In 2020, Saldanha Works would have contributed an EBITDA loss of between R1.2 billion and R1.6 billion. Despite management's strenuous efforts to seek relief from excessive input costs, no meaningful amelioration was achieved. The decision to put Saldanha Works on care and maintenance could no longer be avoided.

The directors and management of our company are acutely aware of the negative impacts this unavoidable decision will have on our employees, supply chain and the entire community of the West Coast. At the time of reporting, concerted efforts were being made to lessen these impacts.

Strategic objective 1

Towards zero harm

We place safety above any other objective or priority

A record performance

2019 represented our company's best annual safety record yet – as measured by two key performance indicators: the lost time and total injury frequency rates.

As was the case in 2018 and 2017, this year we continued to emphasise incidents and near misses with all incidents being thoroughly investigated and lessons learned and actions taken shared throughout the company. Closing the loop on all incidents was a particular management safety focus, to create an appreciation that even "less serious" incidents and conditions have the potential to cause considerable harm.

At 6.57, our 2019 TIFR showed a pleasing improvement on that of 2018 which, in turn, was less than a quarter of the rate for 2009. The LTIFR of 0.44 was, as noted, the best recorded such rate for the company, the tenth successive annual decline.

Regrettably, senior millwright, Arshad Bhayla, was fatally injured in October at the Newcastle Works' rod mill plant in a crushing incident. Mr Bhayla was 28 years old and had worked at the company for six years. He is survived by his wife and two children.

In 2018 Saldanha Works' safety performance deteriorated sharply. This situation improved significantly this year, however. Whereas in the previous year, Saldanha Works posted an LTIFR of 1.81 and five lost time injuries, in 2019 there were no lost time injuries at the plant.

In our 2018 integrated report we recorded management's belief that the then improved safety result owed much to the company's stronger financial performance and, therefore, better morale. In 2019 our safety performance worsened temporarily following the announcement of retrenchments and restructuring but the deterioration was aggressively addressed through more concerted campaigns emphasising personal engagement with employees.

Key safety performances include:

- A record low company-wide LTIFR of 0.44 (2018: 0.53; 2017: 0.66)
- Small decline in the disabling injury frequency rate, from 0.85 in 2018 to 0.84
- Some 93% of risks were actively closed out
- Total injuries down by 12% year on year
- June 2019 was a month of zero harm – the first for the company

Top safety focuses in 2019 included strengthening risk management practices and a safety leadership training programme which, it is believed, contributed considerably towards positive cultural and behavioural change.

Safety interventions in the year

In 2019 a campaign called "21 days of Safety Leadership" reached more than 1 200 individuals (80% of the target) with daily email motivations, quotes and links to personal video testimonies from safety leaders within our organisation. The campaign encouraged habit-forming behaviour by superintendents and managers to ensure that they start conversations, share good practices online and spend time on the shop floor to create more safety followers who, in turn, can positively influence our safety culture.

Change-management discussion sessions with general managers and their direct-reporting management structures were used to demonstrate practical safety ideas and measurable targets.

Three-year key performance indicators

1 Work-related fatalities

2019	2018	2017
1	1	3

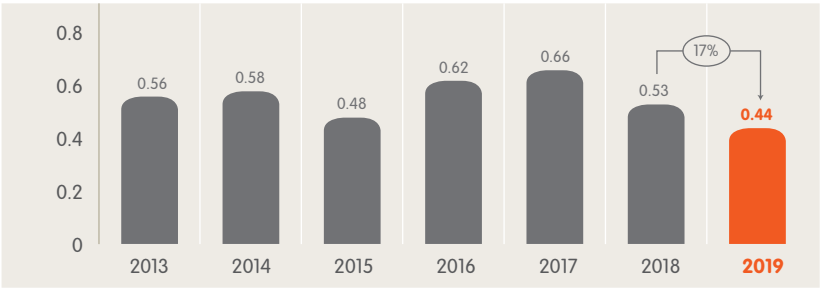
2 Lost time injury frequency rate (LTIFR)

2019	2018	2017
0.44	0.53	0.66

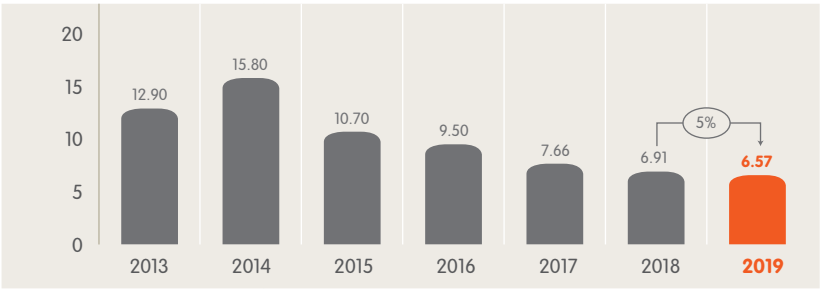
3 Total injury frequency rate (TIFR)

2019	2018	2017
6.57	6.91	7.66

Lost time injury frequency rate



Total injury frequency rate



Marking blooms at Newcastle Works.

Family day – part of our safety commitment.

In 2019 family days were launched with employees' extended family members being brought on site and informed about how important it was that they helped to ensure their loved ones take responsibility for their safety. Family members were briefed on our safety culture and expectations and exposed to the areas in which their relatives worked.

This year the following safety interventions were noted by the board:

- The proactive identification of potential serious injuries and fatalities (PSIF) focused on eliminating risks before serious injuries occurred. It is expected that all managers, employees and contractors should identify risks proactively during shop floor audits and plant walk-throughs. A target was set of one PSIF per month being closed off and verified with a renewed focus on the quality of verification
- The reporting of 314 PSIFs was proactive in nature (this was more than 50% over the target set by the ArcelorMittal group)
- Of all PSIFs reported, 93% were considered "closed off", meaning that they had been effectively addressed – verification and signing-off being done by a corporate safety specialist. Lessons learned were shared with all sites in the company
- On fatality prevention standards (FPS), compliance audits were done on all 11 FPS Protocol standards, verification audits being carried out and all findings successfully closed out
- Training on legal compliance was redefined and streamlined
- Management more proactively undertook shop floor audits with plant walk-throughs focusing on a specific FPS topic at a time with one week focusing on the application of the standard and the following week being concerned with closing out observed deviations
- Man and machine separation campaign:
  - 1 457 risks identified, of which 1 280 were mitigated (88%)
- Machine safeguarding campaign:
  - 1 177 risks identified and
  - 1 154 mitigated (98%)
- Crushing campaign: 1 448 risks identified and 1 422 mitigated (98%)
- Structures, grids, platforms and walkways campaign (a new intervention in which dedicated teams test the integrity of structures and document deficiencies): 40% mitigated
- Permission to stop unsafe work. Cards were provided to employees at all levels giving them permission from their general managers to act immediately on unsafe activities if the employee deems it necessary to halt operations. Should such warnings not be heeded, all employees have the right to appeal to the general manager concerned without fear of reprisal.

On health, in 2019 verification health audits were held to gauge how business units fared in terms of health practices. All plants are on track and a full audit will again be held in 2020. In 2019 a company-wide occupational disease rate of 0.0 was recorded.

The coke ovens in Pretoria Works, Newcastle Works and Vanderbijlpark Works were prioritised this year in terms of health interventions with roadmaps specifying discrete expected outcomes being distributed to stakeholders. These roadmaps focus on issues including respiratory care, PPE and workers' exposure including air and biomonitoring as well as job rotation and showering facilities.

Outlook

In 2020, encouraged by the progress achieved this year, safety management will launch a concerted internal communications drive named Vision Zero. Testing of the practical understanding of risks will be targeted and "golden rules" emphasised.

Strategic objective 2

Delivering sustainable profits throughout the steel cycle

Tough decisions have had to be made – and decisive actions taken – to preserve our company's sustainability

A very different context

The financial successes enjoyed by our company – and much of the world's primary steel industry in 2018 – are unlikely to be repeated for some time.

In 2018 the company's better financial result owed nothing to domestic demand (although export sales improved). Rather, that result derived from once-off firmer international primary steel prices (see page 7) and an almost unprecedented gap between world steel prices and the cost of key raw material inputs. In 2019 South African demand again reduced while we encountered heightened competition from numerous exporters in our traditional African markets – at the same time that world prices softened and our long products markets, in particular, witnessed a growing influx of new, largely scrap-consuming, producers.

A year of solid progress

In 2019 a number of very fundamental advances were made towards turning our company into a world-class steel producer which will be able to compete with the best of its unsubsidised competitors and can sustainably generate profits.

In particular this year:

- Previous Business Transformation Programme savings were bedded down and additional savings, of USD24/tonne, were booked
- Overall production performance was outstanding despite reduced capacity utilisation
- Our fixed cost base fell by 12% or R999 million
- Net financing cost reduced by almost 50%
- Intensive cash management initiatives sharply reduced working capital requirements.

Key performances include:

- Previous Business Transformation Programme savings were bedded down and additional savings of USD24/tonne were booked
- Stringent focus on supply contracts resulted in a saving of R1 113 million – more than double the targeted amount
- Liquid steel production was significantly impacted by declining market demands

Business Transformation Programme

In its second year of implementation, this year our key Business Transformation Programme proved its ability to deliver substantial verified and sustainable cost savings.

Three-year key performance indicators

4 EBITDA per tonne of liquid steel (R/t)

2019	2018	2017
(143)	709	(64)

5 Return on capital employed (ROCE) (%)

2019	2018	2017
(23.3)	20.4	(7.5)

6 Steel market share (%)

2019	2018	2017
65	71	69

7 Liquid steel production (000 tonnes)

2019	2018	2017
4 411	5 092	4 910

8 Cash generated from operations (Rm)

2019	2018	2017
423	2 282	(615)

9 Net cash/debt position at year-end (Rm)

2019	2018	2017
(3 370)	(475)	(3 262)

10 On-time deliveries (%)

2019	2018	2017
69.7*	57.1	50.9

** As of this year, with the mothballing of Saldanha Works, we report our on-time deliveries (OTDs) excluding our West Coast operation. Given the lead times and logistics challenges associated with blue-water exports in particular, Saldanha Works' overall OTD tended to detract from the company's average performance on this indicator.*

The Business Transformation Programme is a highly targeted and concerted outcomes-focused undertaking involving the production, procurement, commercial and human resources functions, supported by extensive access to ArcelorMittal group expertise and best practice.

In our 2018 integrated report we stated that the company anticipated the Business Transformation Programme returning a cost saving of USD10 per tonne of sales (USD/tonne). Despite the Business Transformation Programme only commencing in Q3 this was, in fact, the internally verified saving per tonne actually booked for that year.

In 2019 the Business Transformation Programme interventions resulted in internally verified savings of USD24/tonne. This was in addition to the USD10/tonne achieved in the previous year against the 2018 baseline, savings which were sustained for the duration of 2019.

In 2018 we indicated leadership's resolve to achieve a cost saving per tonne of steel of USD50/tonne by 2021. Management remains of the view that this is achievable but has instead chosen to focus on a target of USD58/tonne by 2023. With the impact of Saldanha Works' mothballing, these savings will rise to USD69/tonne. It is envisaged that the bulk of this reduction will have been achieved by 2021. The longer timeframe is to make evident the impact of strategic projects such as the drive to improve our raw material self-sufficiency.

In 2019 the Business Transformation Programme delivered accelerated, sustainable results. Although volumes projected from debottlenecking programmes did not deliver to expectations, initiatives to increase volumes during market upswings were implemented. Ultimately, this contributed to sustainability and cost improvement. Commercial savings were realised through improved quality performance at Vanderbijlpark Works, outbound logistic improvement in Newcastle Works as well as pricing strategies.

Efficiency improvements were mainly driven by improved fuel rates, especially increased PCI rates at both Vanderbijlpark Works and Newcastle Works, and cheaper coal blends using more local (rather than imported) blends at Newcastle Works. The maintenance transformation programme continued to translate into improved plant utilisation and reliability. Procurement savings derived largely from rebasing contracts and moving off-contract spend to contracts as well as renegotiating raw material supplies.

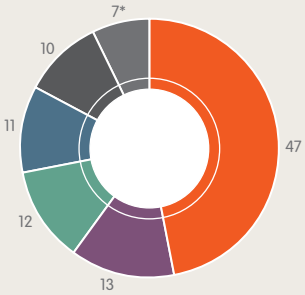
Business transformation (%)

The attainment of the Business Transformation Programme saving of USD24/tonne can be approximately summarised as follows:

Commercial
By improving quality, we can make more products customers want with lower non-prime rates and higher prices

Procurement
Raw materials comprise half of our total costs while other inputs and services represent approximately another quarter (see page 42)

Sales, general and administration (SGA)
Contracted payments on insurance and management of the Evraz Highveld structural mill constituted the bulk of SGA savings this year (see page 16)



Efficiencies
Improving our production and maintenance functions is fundamental to achieving our cost-saving aspirations (see page 43)

Manpower
Our total cost of employment per tonne of steel is a key metric. To become internationally competitive we need to produce more steel at a lower manpower cost (see page 52)

**Other*
Had more realistic rail and electricity tariffs been achieved, Business Transformation Programme verified savings in 2019 would have been in the order of USD29/tonne. The savings achievement was also diminished by raw material escalations of R2.8 billion.

Delivering sustainable profits throughout the steel cycle continued

Procurement

An outstanding success of the past three years has been the extent to which our procurement and logistics function has succeeded in reducing variable costs including raw materials and supplied services.

In 2018 we reported that raw material savings of R3.3 billion net of foreign exchange and volume factors had been booked while reductions in the costs of industrial products, services and maintenance fell by R583 million. These achievements built on savings of more than R3 billion booked in the preceding two years.

In 2019 our performance on procurement was similarly outstanding.

On industrial products, services and maintenance, a stringent focus on supply contracts resulted in savings of R1 113 million – more than double the targeted amount. This was achieved largely through rebasing contracts (a wide-ranging process which commenced in 2018) and transitioning ad hoc contracts to more permanent ones on more favourable terms (a verified saving of R231 million). These savings were net of output volume factors. We consolidated Newcastle Works road haulier contracts by combining five contracts into a single-source contract resulting in savings of R130 million.

The catastrophic failure of a tailings dam at a Vale-owned iron ore mine in Brazil in January 2019 had a pronounced and almost immediate impact on world iron ore prices. After averaging USD70/tonne over the previous year, iron ore prices rapidly reached USD125/tonne. Although prices softened in H2, the average cost of our internationally priced iron ore averaged USD93/tonne. This year iron ore represented 40% of our raw material basket and 20% of total costs.

As is discussed extensively in this report, Saldanha Works' sustainability was severely threatened by its cost of input materials. Without a sinter plant, Saldanha Works is able to accept only lump iron ore whereas our other operating sites can use a mix of lumps and fines. An average lump iron ore premium of 18% was achieved during 2019.

In 2019, 61% of our total iron ore requirement (3.5 million tonnes) was supplied from fixed price off-take contracts as opposed to an export parity pricing-based supply contract. For the full year this represented a saving of R1.7 billion in total.

Another key cost component, coking coal (in 2019 44% of our raw material basket), witnessed a price decline from an average of USD209/tonne in 2018 to USD178/tonne.

The company aims to improve its self-sufficiency and cost-linked supplies of iron ore to some 40%. With Saldanha Works on care and maintenance, sourcing flexibility and optionality of material sourcing has improved.

Developmentally priced iron ore is vital to allow the company to compete with scrap-based steel producers in South Africa while improving its international cost competitiveness, given that the company finds itself at a locational disadvantage far from major export market.

Stockpile beneficiation commenced in Q4 2019 and is anticipated to reach 360 000 tonnes per annum for the next four years. Continued and intensified development of junior miners in the short to medium term is not only cost beneficial for the company but plays an important transformation role for the country. Low-grade ore beneficiation remains a longer-term opportunity as extractive technology and, for instance, pelletising advances to become more cost competitive. Cost effective and efficient rail infrastructure is vital to this strategy.

Production

In addition to significant progress on the Business Transformation Programme, all operations achieved increasingly stable and reliable operations in 2019. This was despite headcount reductions and output being adjusted in line with market demand as Saldanha Works and Newcastle Works, in particular, operated at often very low levels.

The Vereeniging Works' electric arc furnace (EAF) experienced an extremely successful run-in with operations starting in January 2019, quickly achieving production of 10 000 tonnes per month. This was reduced to 7 000 tonnes per month due to market conditions before being ramped up in Q4, the plant reaching a monthly production of 13 000 tonnes in October. In 2020, operating two daily shifts, Vereeniging Works is expected to produce at 16 000 tonnes per month of liquid steel.

In 2019:

- Vanderbijlpark Works' blast furnace D underwent an interim repair costing R215 million, on schedule and to budget with the opportunity being taken to implement various

improvements over and above the required stave replacements
- A reorganised maintenance function was successfully bedded down with the creation of separate maintenance scheduling and execution teams translating into improved reliability and cost savings
- Production management structures were rationalised, a full reporting layer being removed. This will result in lower fixed costs and quicker decision-making
- Vereeniging Works' successful commissioning and the commencement at Vanderbijlpark Works of production previously done only at Saldanha Works will reduce per tonne costs.

Business unit overviews

Vanderbijlpark Works

This year Vanderbijlpark Works' operations were impacted by declining market demands, which began to be felt as early as Q1. In response to this reality, for the full year our flagship plant operated at only 68% of capacity (2018: 85%).

In spite of the various challenges associated with lower throughput, Vanderbijlpark Works recorded a number of landmark achievements. Chief among these was an extremely successful mid-campaign stave replacement at blast furnace D (Africa's largest blast furnace), which was completed within the scheduled 60 days commencing in May. While installing the most modern stave designs, plant management used the opportunity created by this scheduled stoppage to introduce a number of improvements to ancillary equipment. These included enhancements to the furnace top gearbox and stoves, redesigning the casthouse trough design as well as the layout of the slag granulation surge tank's piping. The total cost of this intervention – including improvements which will boost throughput, reliability and energy efficiency – was R215 million.

In late 2018 blast furnace C experienced production difficulties, a situation which continued into January 2019. This required concerted efforts to build up additional slab stocks ahead of blast furnace D's scheduled mid-campaign stave upgrade, an undertaking which was successfully completed without disrupting deliveries. Because of weak demand, blast furnace D was only restarted six weeks later than required by the stave replacement, the restart being very successfully completed. In response to poor market conditions, blast furnace C was switched off in October, only recommencing production in January 2020.

Enhancements to our galvanising lines meant that Vanderbijlpark Works was able to produce new products to heightened customer specifications. A lowest ever non-prime cost of R158/tonne was achieved in 2019 with total savings of R34.4 million. By end-2019 the facility achieved 97% of its Business Transformation Programme targets.

Due to poor demand (and the delayed imposition of import protections) Vanderbijlpark Works' tinplate plant was mothballed, the last orders being fulfilled in Q3, marking the end of tinplate production in South Africa. By this stage, production had dwindled to just 25 000 tonnes in the year.

In 2019, capacity utilisation stood at only two-thirds but the prospects for increased output in the new year were significantly enhanced with the transfer of domestic production from Saldanha Works, including the development of 1.4mm, 1.45mm and 1.5mm HRC in widths of more than 1 200mm. This will add almost 450 000 tonnes of production to Vanderbijlpark Works' output in 2020, bringing utilisation to more normalised levels and requiring blast furnace C to be restarted.

Newcastle Works

Under exceptional, largely unexpected and generally extremely trying circumstances, Newcastle Works achieved a set of almost uniformly outstanding operational results. These results speak to the sustainable successes of the Business Transformation Programme as applied at Newcastle Works and the continued focus on process excellence.

Upgraded galvanising line – Vanderbijlpark Works.

Rod mill – Newcastle Works.

For much of H1, long steel was on track to produce 1 745 million tonnes of liquid steel – even improving on Newcastle Works' capacity utilisation in 2018, of 81%. In the event, a mid-year collapse in export sales and a sharp decline in domestic demand required plant management to limit working capital drains by reducing stocks and, hence, production. For the first half, production was 800 000 tonnes, falling to 610 000 tonnes in the second six months.

In 2018, in a buoyant market, the blast furnace achieved an average 4 035 tonnes per day production; in 2019 Newcastle Works demonstrated its ability to reliably produce at rates of 4 700 tonnes per day.

Delivering sustainable profits throughout the steel cycle continued

Despite the disruptions and costs associated with stopping and starting the blast furnace and downstream production, energy costs remained constant and the blast furnace continued to perform extremely cost-effectively. In the winter months, Newcastle Works adapted well to loadshedding, reactively shutting off various processes.

From February, in response to competition from new EAF producers of long steel products, Newcastle Works strove to increase the percentage of (lower-cost) scrap used to a targeted 21%. This was a demanding target but one which the plant successfully delivered on – by December reaching 23%. (Advances in changing the input material mix to accommodate scrap at a plant with a configuration such as that of Newcastle Works are incremental and hard won.) In addition, process modifications made it possible to successfully incorporate the use of titanium pellets, which have proven problematic to use at traditional steel plants around the world. The material is considerably cheaper than iron ore but has an attractive iron content. The achievement of these enhancements translated into a sizeable cost reduction.

Business Transformation Programme targets were all met and frequently exceeded. These included improvements in both iron and steel-making. Significant step changes to improve plant reliability were implemented with the benefits expected to become most apparent in 2020.

In 2016 long steel's domestic market sales stood at 87%; by this year this had dropped to 58%. In line with the company's "6 Cs" philosophy, energy was spent on engaging more actively with customers and the first on-site customer day for several years was held in November. Interaction with northern KwaZulu-Natal local government, employer and community associations was similarly ramped up.

Coke and Chemicals operations

Despite various challenges, including periodic and pronounced market downturns, Coke and Chemicals operations returned an EBITDA contribution of R250 million in 2019, on revenue of R1.27 billion.

Production of market coke, at 191 000 tonnes, increased from that of 2018 (180 000 tonnes) but sales of 173 000 tonnes were lower. This depressed demand related, firstly, to electricity blackouts in Q1 (which negatively affected the energy-intensive ferrochrome producers which buy a majority of our market coke. Then, during the winter months, ferrochrome prices softened by some 13%, prompting production cuts by many customers. For the full year, net realised prices were down from those of the previous year, from R5 330/tonne to R4 778/tonne.

Operations were stable throughout the year although output was affected in H2 by the planned replacement of two tar separators at the Pretoria Works coke plant (projects that were accomplished R4.5 million below budget). These replacements form part of a wider gas plant refurbishment project.

Tar product sales volumes totalled 71 935 tonnes, similar to those of 2018.

From 2020 the Coke and Chemicals operations began operating as two discrete operational entities: "Coke Operations" and "By-Products" which includes the tar production facility and steel-making by-products. Previously our Vanderbijlpark and Newcastle Works' coke batteries produced metallurgical coke purely for consumption by our own steel-making operations, surpluses being made available for sale as "commercial" or market coke. Only Pretoria Works was devoted to the production of market coke. In future all coke production (for both internal use and external sales) will fall under Coke Operations.

The separate by-products operation is now responsible for sales of tar products, blast furnace and BOF slags and other non-steel outputs. In 2019 the company sold some 2.2 million tonnes of by-products, realising in excess of R400 million in revenue. Granulated blast furnace slag, in particular, achieved ready markets, 100% of the 1.5 million tonnes produced being sold.

Capital expenditure

In 2019 capex actually spent amounted to R1 204 million. This included a total of R151 million on environmental controls. Some 70% of the capex spend in the year was on the upstream, including the mid-campaign blast furnace D stave replacement.

Energy efficiency

In 2019 our specific total energy consumption per tonne of liquid steel increased by 1.9%. This was mainly due to a reduction in total liquid steel output.

Electricity cost per tonne of liquid steel rose by 25%, arising from a tariff increase of 13.87% per megawatt hour (MWh) and an 11.1% increase in specific electricity consumption compared to 2018. The latter increase stemmed from our restarting of the EAF in Vereeniging Works and reduced total steel output.

Specific natural-gas consumption grew in 2019 by 28.5% per tonne compared with a 7.3% decrease in 2018. In that year natural gas was 14.5% of our non-coal energy, growing to 16.6% this year. (With reduced total liquid steel production, we had a corresponding reduction in own gases generated.)

The first phase of a variable speed drive (VSD) project reduced our Eskom purchases by 96 gigawatt hours (GWh) for 2019. This represented 3.3% of current electricity consumed. A second phase of the VSD project will start early in 2020 with a 30GWh target. The company bought 3.7% less electricity in 2019 than in 2018.

In 2019 our self-generation of electricity fell by 20% compared to 2018. This was due to lower production and, therefore, less off-gas being available for self-generation. Total own generation in 2019 represented 7.3% of our total electricity requirement compared to 8.6% in 2018.

Despite continued efforts to improve our plants' energy efficiency, our current electricity cost burden poses a direct threat to our competitiveness and survival. Total electricity spend in 2019 was R2.93 billion. Placing Saldanha Works under care and maintenance will reduce electricity purchases by an estimated 38%.

As reported in 2018, with Eskom consistently seeking – and mostly being granted – double-digit tariff increases we were forced to seek relief. In 2019 the company applied for relief based on the Short-Term Framework (STF) published by the Department of Energy in 2018. Regrettably, these applications were rejected by the state-owned utility. Despite this setback, we will continue seeking a greater appreciation of the very real threats which excessive monopoly tariffs pose to thousands of steel-dependent jobs.

In 2019 the company initiated a bankable feasibility study to increase self-generation by optimising utilisation of the total current installed capacity. This study includes renewable generation.

Fixed costs

Manpower cost improvements deriving from both Business Transformation Programme productivity initiatives and the Section 189 process will reflect during the new year. The Section 189 process savings will contribute approximately 30% of targeted Business Transformation Programme savings for 2020, which will amount to a similar USD24/tonne to that achieved in 2019. In 2022 and 2023 Business Transformation Programme savings per year are projected to accelerate.

Towards sustainable profits

Cementing and accelerating our profitability gains will be pursued through the Business Transformation Programme and a thorough culture change. Three key elements are:

- **Strategic asset footprint review**
  - Phase 1, Saldanha Works wind-down, will be largely completed by Q1 2020.
  - Phase 2, focused on long steel, will drive the advantages of a more concentrated footprint while continuing to seek developmentally priced raw materials and more realistic electricity, rail and port prices.
- **Raw material cost base**
  Cost-linked raw materials are vital to our survival. In Q4 2019 we began iron ore recoveries from our Thabazimbi mine which will deliver approximately 360 000 tonnes a year for four years.
- **Corporate actions**
  Priorities include joint ventures to monetise by-products, the disposal of non-core properties in tandem with the asset footprint review and maximising the opportunities presented by the Evraz Highveld structural mill.

Outlook

In 2020 management is confident of building on the Business Transformation Programme gains of this year. It is anticipated that the effects of One Organisation will translate into improved production efficiencies although human resources challenges (see page 53) will require close attention.

The expectation is that international iron ore costs will moderate during the course of the year. Despite this, procurement savings through, especially, diversifying our sources of raw materials, will continue to be vigorously pursued.

In shutting down all plants and other functions for at least three weeks in March 2020 we maintained minimal operations at our coke batteries, to avoid lasting damage, while a skeleton staff provided care and maintenance in critical areas as well as limited back-office support. It was envisaged that our operations were likely to remain affected for at least three months until demand – and therefore output – normalised.

Strategic objective 3

Being a valued, responsible corporate citizen

We actively invest in the quality of our stakeholder relations so that, together with others, we can create real social value for our financial value chain, communities and society

Our social performance

In 2019 we operated large value-adding manufacturing plants in three communities in which, for decades, we had very significant social and human impacts.

The most significant of the forms which this impact took lay in the fact that we were one of the largest employers in each of these three areas. This was through both direct employment and through the hundreds of jobs provided by contractors whose personnel worked on our sites. In addition, our procurement supported hundreds more local jobs and hundreds of both large and smaller suppliers and entrepreneurs.

As well as jobs and enterprise support, our communities have benefited from the investments we make in our skills pipeline, our policy being to favour beneficiaries from the areas where we have a physical footprint.

Recently all of these three communities have felt the effects of the downturn in our financial fortunes. As of 2020, our ability to create local jobs and wealth will be limited to just two communities – the Vaal Triangle and northern KwaZulu-Natal.

Our leaders are extremely mindful of the effects our decision to stop production at Saldanha Works will have on the people and the economy of the West Coast. ArcelorMittal will continue to support the Saldanha Science Centre in 2020, with the aim of securing a partner for subsequent years. Regarding its other educational support programmes, we will continue to honour our contractual obligations for 2020.

Key performances include:

- Procurement expenditure (excluding Saldanha Works) declined from R26.8 billion to R25.6 billion
- The company spent R34.3 million on enterprise – and supplier development combined.
- Capital expenditure on environmental controls was R151 million (44.5% higher than that of 2018)

Since 2016, at the board's behest, the company has put a greater emphasis on using its economic impact and its cross-cutting economic linkages to enlarge its socio-economic impact and to support transformation. As of early 2020, the ArcelorMittal South Africa Foundation employed 15 professionals who were responsible for planning, implementing and overseeing our social and economic spend.

Three-year key performance indicators

11 Preferential procurement as a percentage of total spend (%) EMEs

2019	2018	2017
3.0	2.7	2.9

QSEs as a percentage of total spend (%)

2019	2018	2017
6.7	6.1	6.4

Black-owned businesses as a percentage of total spend (%)

2019	2018	2017
28.1	23.6	22.2

12 B-BBEE compliance score

2019	2018	2017
5	5	3

13 Environmental spend (Rm)

2019	2018	2017
151	105	41

Preferential procurement, enterprise and supplier development

Procurement impact

In 2019 our total procurement expenditure (excluding Saldanha Works) declined from the almost R26.8 billion of the previous year to R25.6 billion. The bulk of this spend related to purchases of raw materials, energy and services such as rail transport. Approximately R1.7 billion was spent on EME and QSE vendors, of which a large amount was with local companies.

As a company we have by no means reduced our commitment to transforming our supply chain, despite the ongoing financial difficulties facing the company. Stagnant demand and depressed prices have compelled the business to do everything possible to cut the costs of purchased goods and services. Such an environment often handicaps smaller, emerging suppliers which lack the track records and resources to compete with more established (frequently more cost-competitive) suppliers.

Despite this harsh reality, in 2019 we succeeded in maintaining the diversity of our supplier base such that, for the full year, black-owned suppliers accounted for 28% of all procurement and 30% black women-owned businesses, 12%. Emerging micro-enterprises (EMEs) and qualifying small enterprises (QSEs) represented, respectively 3% and 6.7%. The number of EMEs and QSEs on our supplier database grew marginally, to 1 688.

Enterprise and supplier development

In the year reported the company spent R12.1 million on enterprise development and R22.2 million on supplier development. Both amounts represented increases; for the previous year the figures were R8.7 million and R21.7 million. In 2019 supplier development beneficiaries supplied goods and services to the company worth R155 million (2018: R138 million).

Supplier-development employment is tracked only for those beneficiaries housed in our Matlafatso incubation hub in Vanderbijlpark. At the end of 2019 the hub's first two-year cohort of 11 new enterprises exited the incubation hub, employing at the time 170 people. A new cohort, of 13 start-ups, took up residence in November 2019.

Our business park in Vanderbijlpark hosted two medium-sized township businesses this year, providing 85 jobs (2018: 114). The newly opened Newcastle business park hosted three small black-owned enterprises.

Socio-economic development

Our greatest social investment takes the form of our support for science centres in the Vaal Triangle, Saldanha and Newcastle. In the year this financial support amounted to R12 million.

These valuable community assets, which are operated in association with the departments of Basic Education and Science and Technology, had measured impacts in terms of individuals reached. In 2019, these impacts totalled 19 000 learners and almost 500 teachers reached directly. Through various outreach initiatives an additional 68 000 learners and adults benefited.

Community and educational entities supported in the year included Thusong Projects, which delivered soup kitchen and skills development interventions in the Vaal Triangle, and the GetOn Foundation which, through ArcelorMittal South Africa sponsorship, provided entrepreneurial and life-skills training to several dozen young people. In Saldanha, Siyabonga Special Kids Day Care Centre offered care and therapy to disabled children.

Total socio-economic development spend in 2019 was R18.3 million. Despite the closure of Saldanha Works, we intend continuing our support of the Saldanha Science Centre and Siyabonga Special Kids Day Care Centre. In taking decisive action to preserve our company, we hope to continue making a positive contribution to the lives of thousands of individuals and the welfare of communities.

B-BBEE rating

Two years previously, in 2017, ArcelorMittal South Africa achieved a level 3 B-BBEE rating. In 2018, however, this dropped to level 5, a rating which the company experienced considerable difficulty in retaining in 2019.

As was the case in 2018, share price weakness negatively affected our rating on the ownership net value sub-element of the B-BBEE codes. Also, the B-BBEE profile of a small number of large raw material suppliers, on whom we depend for our inputs, undermined our empowerment credentials. Representations were made to government on why these suppliers, which subscribe to the Mining Charter and are not subject to the generic B-BBEE codes of good practice (or other, similar, sectoral codes), should be excluded from our procurement measurements. As of Q1, these representations had yet to bear fruit.

Also, the company's financial challenges made it difficult for us to attract senior historically disadvantaged talent which, in turn, negatively impacted us on the management control element.

It should be noted, however, that we performed well on those elements of the B-BBEE scorecard which were within our control. These included enterprise, supplier, skills and socio-economic development.

Being a valued, responsible corporate citizen continued

Our environmental performance

Along with other manufacturing sectors, the steel industry worldwide is increasingly focused on its environmental impacts including its contributions towards climate change. ArcelorMittal South Africa is by no means an exception.

In 2019 our capital expenditure on environmental controls was R151 million – 44.5% higher than that of 2018 and 3.7 times the amount spent in 2017.

In March 2019 we began the process of disbursing some R1 billion on further minimising our environmental impacts, a process which will dramatically alter our capital-expenditure profile. The bulk of this new expenditure is concerned with Vanderbijlpark Works' coke gas-cleaning facility, to reduce sulphur-related emissions.

The scale of financial investments which ArcelorMittal South Africa is making to mitigate its substantial environmental impacts is just one indicator of how seriously our leadership considers trade-offs inherent in creating integrated value when formulating company strategy.

Emissions to air

As noted in last year's integrated report, in 2010 we spent R340 million on building a new coke gas-cleaning installation in Vanderbijlpark Works. Regrettably, this facility experienced multiple technical and operational challenges. In August 2018 the Gauteng Department of Agriculture and Rural Development (GDARD) issued the company with a compliance notice relating to Vanderbijlpark Works' air emission licence (AEL) and authorisation concerning the gas-cleaning plant. This was after the company made proposals in terms of a pre-compliance notice.

The compliance notice directed us to reinstate the gas cleaning facility within 30 months of orders for the necessary equipment being placed. In March 2019 a so-called engineering, procurement and construction contract was signed with a respected contractor, thereby triggering the 30-month period. A potential delay in starting the work arose after required amendments to the record of decision could only be approved by the authorities in October 2019.

Once this project has been completed, a 30% reduction in Vanderbijlpark Works' sulphur emissions will be effected and compliance levels relating to hydrogen sulphide (H_2S) emissions will improve. However, meeting strict new standards set in terms of the Air Quality Act may remain challenging.

Particulate emissions in specific terms per tonne of liquid steel improved significantly compared to previous years as is shown by the graph below. This improvement was mainly due to the successful replacement of the blast furnace abatement system at Newcastle Works.

Sulphur dioxide emissions reduced by approximately 3 600 tonnes in 2019, mostly because of reduced throughput.

A criminal prosecution against the company relating to its Vanderbijlpark Works' AEL and sulphur-related emission exceedances is in progress with the next court date scheduled for April 2020.

The sinter main stack was compliant until end October 2019, whereafter a period of non-compliance followed to January 2020. From February 2020, the plant was compliant again due to a major bag filter refurbishment.

Sinter main stack compliance was a considerable achievement, even in the context of the Q4 failures, given that performance had proved to be challenging since 2012. Notwithstanding the November 2019 setback, the company remains committed to being fully compliant with the stricter new emission standards by April 2020. (This major emission source was not included in the postponement applications submitted to the authorities for relief on certain stricter emission limits until 2025 (see below)).

Apart from the above issues, at Vanderbijlpark Works there were other non-compliances recorded in the year, relating mostly to the availability of abatement systems as specified in the AEL; these issues were addressed to re-establish compliance. A newly installed fume capture and destruction facility at Vanderbijlpark Works' tar plant requires further work until April 2020 before all AEL requirements attached to it can be met. On particulates, compliance levels at some of the older batteries need to improve. Further efforts will be made to achieve the required new plant standards from April 2020.

In 2018, R71 million was spent to ameliorate dust abatement at Newcastle Works' blast furnace cast house. In September 2019 the newly installed abatement system's ducting was damaged, this situation being swiftly brought under control. Notwithstanding the installation of a new system, fugitive emissions from the blast furnace's cast house remain a concern and lighter runner hoods are being experimented with.

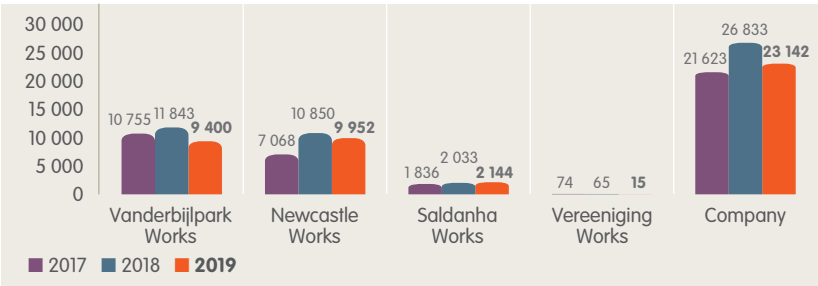
(Steel plants globally are facing challenges with point source emissions which are difficult to capture. We acknowledge that in this regard we can improve significantly. It is difficult to measure such emissions, other than visually.)

New regulations issued under the Air Quality Act place considerable, even onerous, burdens on primary manufacturers. Recognising the practical challenges these regulations present, the authorities have instituted a process for "postponement applications" to be made by affected companies. If applications are granted, the stricter standards may be delayed until 2025.

We have submitted such applications for some facilities in Pretoria, Newcastle and Vanderbijlpark. In the case of Vanderbijlpark Works, no postponement application pertaining to particulate emissions was submitted as particulates are a "pollutant of concern" in the "priority area" in which the facility is located.

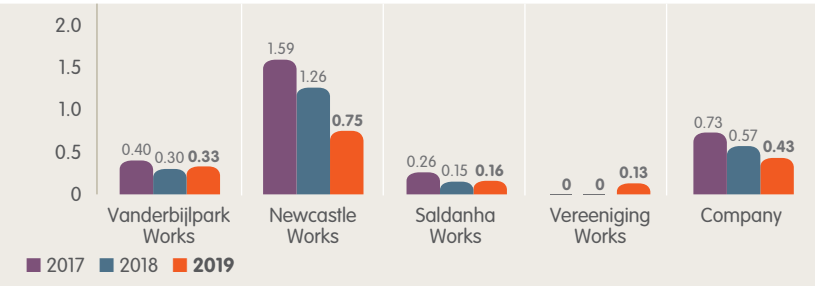
At our coke-making operations, amendment of a very strict H_2S standard was requested, as provided for in legislation. This process is being dealt with in concurrence with postponement applications. Public participation processes were followed in order to disclose to stakeholders details concerning the postponement and amended applications. By the time of reporting, no final decisions had been made by the Department of the Environment, Forestry and Fisheries (DEFF) regarding these applications.

Total SO_2 emissions (t/annum)



Rehabilitated disposal site at Vanderbijlpark Works.

Particulate emissions (kg/t liquid steel)



Zero effluent discharge plant at Newcastle Works.

Climate change

ArcelorMittal group's Climate Action Report sets out the group's ambition to significantly reduce CO_2 emissions globally and to be carbon neutral in Europe by 2050. It lays out the choices available to the industry and outlines the components of the ArcelorMittal group's own climate action strategy. This includes a wide-ranging portfolio of yet-to-be-developed low-emissions steel-making technologies, the development of a new carbon reduction target to 2030 and the group's contribution to the development of public policies.

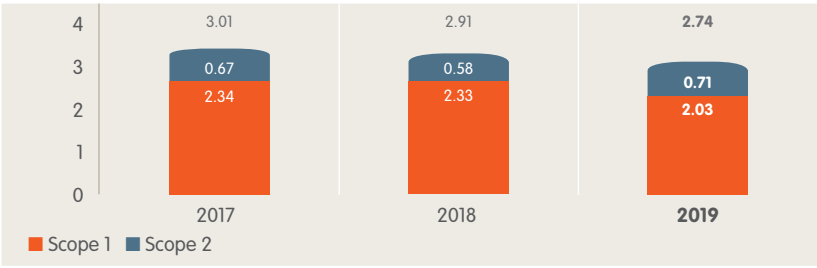
Research to date indicates that the reductant of the future will in all probability be hydrogen, the main challenge being the availability of enough carbon-free electricity for hydrogen production. In a hydrogen-powered steel-making future, energy consumption will increase fourfold or more and costs may also increase by a similar quantum. This will require the adoption of policies both locally and globally by governments, to ensure sustainable progress towards reducing emissions. As the ArcelorMittal group is the majority shareholder in our company, we stand to benefit from research and pilot plant initiatives while being obliged to abide by group policies and targets.

ArcelorMittal South Africa's climate impact performance metrics have been disclosed for a decade or longer. Although progress has been made over time, the data reflects the reality that a new breakthrough technology is required to make a substantial difference. The company fully complies with all legislative requirements relating to climate change and has voluntarily participated in the DEFF's Carbon Budget programme since 2015.

We company participated in South Africa's Carbon Disclosure Project (CDP) initiative until 2017, since when our South African operations and their emissions have been included in the ArcelorMittal group's CDP submission. This was done to avoid possible double accounting. In the 2019 CDP Climate Change assessment the group achieved a mark of A-, an improvement from C in 2017. This means that the ArcelorMittal group has now reached "leadership" level. This compares favourably against the global, European and "metal, smelting, refining and forming sector" averages of C. (Until 2017 ArcelorMittal South Africa regularly achieved high ratings in the domestic assessment.)

Being a valued, responsible corporate citizen continued

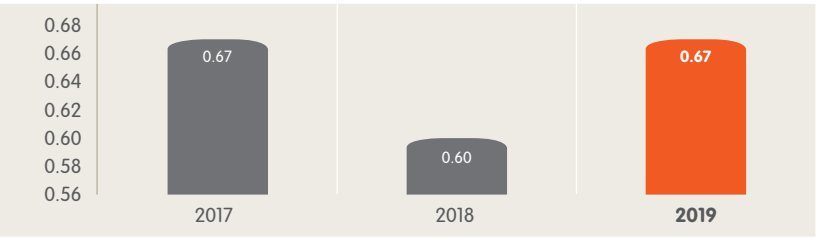
CO_2 emissions (CO_2 eq/t liquid steel)



Thabazimbi iron ore mine emissions are excluded from the above but amounted to 589 tonnes and 5 714 tonnes for scope 1 and 2 respectively in 2019.

It should be noted that ArcelorMittal South Africa's 2019 emissions reported were calculated in accordance with South African legislative reporting requirements. These requirements are based on methodologies of the United Nations' Inter-governmental Panel on Climate Change and differ substantially from reporting methodologies applied previously. Hence, a comparison with figures from previous years should not be considered as improvements/deteriorations would be over- or underestimated. For scope 2 emissions, a factor of 1.06tCO_2 eq/MWh was applied – higher than in previous years as the Eskom factor increased.

Company electricity usage (MWh/tLS)



Carbon tax

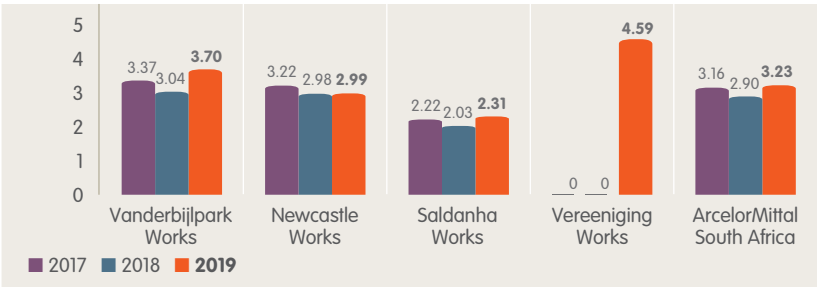
Despite carbon tax legislation coming into force in June 2019, at the time of writing certain related regulations, particularly pertaining to trade exposure and a so-called Z Factor were still being finalised. It was expected that these draft regulations would be promulgated by April 2020, at which time the company will be in a position to accurately determine its liability. Considering regulations on which there was certainty, as of March 2020 our tax liability for the period 1 June to 31 December 2019 was estimated to be in the region of R95 million.

The company remains of the view that the carbon tax is punitive by design. Since no alternative steel-making technologies currently exist to significantly reduce greenhouse gas (GHG) emissions, the best means to reduce our tax liability is to cut production. (In 2019, in absolute terms, our GHG emissions did reduce significantly – because less steel was produced. Much of the steel imported to South Africa is not subject to similar taxes.)

Water management

In 2019 our water abstraction per tonne of liquid steel was 11.4% higher than that of the previous year, mainly due to reduced throughput. In terms of absolute volumes, however, a 3.6% improvement was achieved – which is extremely positive since our Vereeniging Works' facility was restarted in 2019. Our abstraction per tonne of liquid steel in 2019 was 3.23kℓ/tLS.

Fresh water intake (kℓ/t liquid steel)



Water figures for our Thabazimbi iron ore mine are not included in the above figures. Water abstraction at this facility during 2019 amounted to 1 366 300kℓ with no discharges apart from stormwater. Thabazimbi is an iron ore mine which ArcelorMittal South Africa acquired from Kumba and which is currently being rehabilitated with – at the time of reporting – no mining taking place apart from some tailings recovery.

In 2019 difficulties were experienced at Vanderbijlpark Works in preventing effluent being discharged but towards the end of the year encouraging performances were achieved. Both Newcastle and Saldanha Works maintained their zero effluent discharge (ZED) status throughout the year.

By-products

Since 2015 the company has been unable to sell basic oxygen furnace (BOF) slag produced at Newcastle Works because of a government compliance notice/directive requiring buyers of such slag to acquire waste management licences. In 2018 the imposition of this notice/directive compelled the company to dispose of 225 000 tonnes of slag which otherwise could have been sold.

We have consistently argued that, contrary to the view espoused by the authorities, BOF slag is a by-product and not a waste product. After exhausting all administrative options to get the notice/directive overturned, the company was compelled to take the authorities' decision on review at the High Court. In June 2018 the company received a favourable ruling but the authorities took the matter on appeal to the Supreme Court of Appeal. The matter was heard on 21 February 2020 and ArcelorMittal South Africa is currently awaiting judgment in this regard.

Pending the finalisation of the appeal to the Supreme Court of Appeal, ArcelorMittal South Africa brought an application to be able to sell the BOF slag in the interim, which application was granted. ArcelorMittal South Africa is therefore allowed to sell BOF slag pending the outcome of the appeal.

The company's disposal ratio expressed as a percentage of total by-products generated reduced to below 30% in 2019, a good improvement from 34% in the previous year. Excellent steel slag sales were achieved at Saldanha Works, the bulk of these sales being to the cement and construction sectors.

Saldanha Works

Our care-and-maintenance decision regarding Saldanha Works envisages the company maintaining all requisite environmental registrations, permits and licences and continuing to report to all relevant authorities on the performance of the site and facility. No significant environmental challenges are anticipated during the mothballing process while the abatement of wind-blown emissions from stockpiles is likely to be a particular, if minor, concern of our environmental team.

Outlook

In 2020 we will continue working towards starting the project to reinstate Vanderbijlpark Works' coke making gas cleaning facility. Favourable outcomes to the Air Quality Act postponement applications are anticipated. Our socio-economic spend, and therefore our impacts, are likely to remain little changed from 2019.

Strategic objective 4

Adapting our workforce to a new reality

In the year reviewed our staff complement underwent painful, inevitable processes of change – including substantial resizing – which were essential to our company's survival

This change process (which is ongoing) occurred in the context of continued cost, market and macro-economic pressures. As a result, our primary people metrics for the period 2017 to 2019 mostly illustrate the financial challenges facing the business.

In 2018 management embarked on a fundamental process of business transformation intended to secure its sustainability and profitability. The qualities of urgency, productivity and delivery which underpinned this transformation process were communicated throughout the organisation and consistently stressed the central importance of teamwork, collaboration and employee initiative.

Optimising our workforce

Our total cost of employment, as measured by tonne of steel produced (TCOE/t) has, for at least a decade, been a key company performance indicator. However, despite concerted efforts to limit employee cost increases, from 2010 our TCOE/t rose by 64% while crude steel production decreased by 9%.

Whereas our total employment cost in 2019 stood at R4.8 billion, to measure up against best-in-class international primary steel benchmarks would require an improvement of some 42%. Additionally, overall measured productivity has not improved in the recent past. The impact of declining volumes only served to exacerbate the widening gap to global productivity benchmarks and the overall competitiveness of the company.

Given the impacts of escalating costs and declining productivity, the company decided in July 2019 on an organisation-wide restructuring process and issued a Section 189 notice in terms of the Labour Relations Act. At the time our own-employee count was 8 716 and it was envisaged that up to 1 200 employees might be affected. The process resulted in only 300 forced retrenchments, the balance of the required reduction being achieved through natural attrition and voluntary retrenchments.

Key performances include:

- Since 2010 our TCOE/t rose by 64% while crude steel production decreased by 9%
- More than 2 500 jobs might be affected by the organisation-wide restructuring processes
- Management control performance under the B-BBEE codes improved to 9.21

In November the company announced its intention to wind down steel production at Saldanha Works. Inevitably, this decision will result in significant job losses. By March 2020 it was estimated that net job losses resulting from the decision to place Saldanha Works on care and maintenance would amount to approximately 500 and 800 employees and contractor staff respectively. Some 70 positions were created at Vanderbijlpark Works as a result of the transfer of certain production volumes from Saldanha Works.

Three-year key performance indicators

14

Total cost of employment (TCOE): TCOE/tonne of liquid steel (ZAR)

2019	2018	2017
1 225	1 083	1 049

15

Management control performance (under B-BBEE codes)

2019	2018	2017
9.21*	9.18	9.08

** As at December 2019 and subject to an external verification audit.*

In reducing headcount, the board was acutely aware of the negative financial and psychological impacts this would have on employees and contractors and their families. All retrenched employees were offered two weeks' pay for each completed year of service – double the statutory requirement. Outplacement support, as well as professional counselling, was offered to those affected, at the company's cost.

In deriving our TCOE figures we are principally concerned with full-time equivalents (FTEs). This year contractor employee costs represented 25% of total FTEs and reductions in contract scope and transitioning more suppliers to fixed-term contracts will have a significant impact on our TCOE in 2020.

Between 2014 and 2019 the percentage of TCOE ascribable to hired labour and overtime more than halved, from 19% to 7%. It is expected that there will be further marginal decreases in these costs in the new year as productivity improvement initiatives gain traction.

Fostering a new culture

In cutting jobs, strenuous efforts were made to retain key, especially critical skills. Directors questioned management regularly and closely on the retention of such skills. Board members are satisfied that adequate steps have been taken to ensure that the skills which are essential to the achievement of the Business Transformation Programme have been effectively retained while considering the possibility, in isolated instances, of entering into retention agreements.

Another key management concern while negotiating the details of workforce reduction was that of employee morale. In 2019 the company's voluntary turnover rate was in the region of 7%. This represented a substantial increase over the 4% of 2018. Despite the parlous state of the broader economy, this increase clearly demonstrated growing concern among employees about the company's operating context – and of their own job security.

In 2019 our Speak Up survey of staff attitudes indicated a worsening of morale. This was not unexpected given the announcement of the Section 189 process and the Saldanha Works closure. In addition, certain package-category employees did not receive salary increases given the business context and a need to focus on improving our cost position. Understandably, the reorganisation and resizing process presents challenges in terms of how employees perceive the company. Several actions to address these perceptions are planned for 2020.

Management believes that overall commitment to business transformation remains as resolute as before and that we will have a resized workforce which is fit for purpose. The platform of a sustainable, stable and competitive business will ultimately facilitate a culture of ownership, accountability and delivery.

Developing skills

In ensuring our company's survival it has become imperative to adapt not only our workforce and headcount, but to also resize our pipeline of skills based on evolving business needs. This will have an unavoidable effect on the numbers of individuals whose training and development we are able to support. In 2019 our training and skills development spend decreased from R140 million in 2018 to R134 million. Regrettably, this impacted the company's development programmes including learnerships, apprenticeships, tertiary funding and graduate placements.

Positively, this year we were able to offer internships to 134 unemployed young South Africans under the government's Youth Employment Service (YES). These individuals were employed throughout the company, at all sites and in most functions, gaining valuable skills and workplace experience.

Skills development pipeline

		2019	2018
Number of hours of full-time package category		**58 137**	80 285
Number of hours of full-time bargaining unit		**269 908**	233 032
Investment in employee training and development	Rm	**134**	140
Proportion of above focused on black employees	%	**94**	93
Investment in bursary scheme	Rm	**81**	75
Graduates in training		**21**	26
Production learners		**497**	559
Apprentices		**675**	752
Candidate artisans		**82**	75
Learner technicians		**40**	10
University engineering bursars		**81**	136
Candidate engineers		**64**	89
Candidate technicians		**33**	40

A key focus of the training and development efforts of the company continues to be on supporting transformation and the development of previously disadvantaged groups. The significant majority of learnership, apprenticeship and bursary intakes remain from the immediate vicinities of our operations.

Outlook

After starting the process of correcting the structure and size of the organisation in 2019, in the new year we will begin to implement a wide-ranging strategic workforce plan under the banner of the One Organisation philosophy. This will entail changes to how we define the structure and functioning of the organisation and the deployment of individuals and teams with a central theme of unifying and simplifying the way the business operates.

The retention and enhancement of critical skills will be a key focus in 2020. This will encompass a review of key roles and skills within the organisation as well as the way employees are developed to fulfil the requirements of a changing business context. Our development pipeline, talent programmes and internal training programmes will be directed towards shaping the skills profile of the company and include technical proficiency, management capability and leadership competencies.

Human resources interventions in 2020 will be largely concerned with employee engagement and morale while creating a desired culture which is driven by the "Six Cs".

At the time of publishing this report we had recently ceased production at all operating sites as a result of the COVID-19 pandemic. Almost all employees were told to not report for duty with those who were able to do so working remotely. The human-resources implication of this unparalleled shutdown was being closely interrogated as of March 2020 and appropriate responses planned.

Leadership – how the board directs our company's value creation

In 2019 a number of extremely difficult, complex decisions had to be taken to fundamentally transform ArcelorMittal South Africa, to ensure the survival of a domestic primary steel industry and the preservation of thousands of jobs. Responsibility for taking these decisions – and overseeing their effective and ethical implementation – sat with executive and non-executive directors as a collective. In the year reviewed, directors fully embraced this responsibility, the board meeting on eight occasions as well as engaging closely and more frequently with management between board and committee meetings.

Integrated thinking guided all of the board's deliberations. Directors embraced the imperatives of ensuring sustainability – but had no option but to make difficult trade-offs and balance short-term interventions for longer-term benefits. In doing so, the board directed that all steps taken to achieve these outcomes were to be executed so as to minimise negative impacts on the company's human, social and intellectual capitals.

In particular, the board was concerned that the Section 189 processes and the wind-down of Saldanha Works should be carried out humanely and fairly with the greatest sensitivity towards employees, contractors, suppliers and communities. Directors also strove to ensure that, in reducing headcount, scarce and valuable skills were retained, and that customers' interests did not suffer.

At the end of the year, directors were satisfied that all possible steps had been taken to preserve the transformation gains made by the company in recent years. This despite the necessity to cut budgets across functions. While prioritising business transformation, environmental impacts were a top priority for the board throughout the year.

Ethical and effective leadership

The board of directors is the custodian and focal point of corporate governance at ArcelorMittal South Africa. The board is mindful of the outcomes it needs to achieve as set out in King IV and in doing so applies the code's principles, as well as its practices as appropriate for the company. Directors acknowledge that their fundamental responsibility is to lead and direct the organisation in an ethical and effective manner.

The board, led by an independent non-executive chairman, is accountable to, and should report in a transparent and open manner, to all stakeholders regarding the performance of the company and how it has fulfilled its responsibilities. As set out in the King IV Report, the board appreciates that the company's core purpose, its risks and opportunities, strategy, business model and sustainable development are all inseparable elements of its value-creation process. Decisions need to be made in an integrated manner, taking into account the effects of strategy on all stakeholders and the social, economic and environmental context.

In the year 2019 the board met on eight occasions, one being a strategy session combined with approving the 2020 budget.

Following a review of the board's committees in 2017 the new committee structure was reviewed in 2019 and it was agreed that the structure was achieving its desired outcomes. The board engagement with management outside of formal board meetings, including working dinners – was found to be effective in improving decision-making and board effectiveness.

Actions

In 2019 the board discharged its responsibility to provide ethical, effective leadership. More specifically, some of the key issues addressed by the board included:

- Engaging with senior management on the transformation strategy, approving the strategy, receiving and considering regular update reports and continuously interrogating executives on work in progress and outcomes, both actual and projected
- Scrutinising the company's risk management with a renewed focus on environmental, information technology, input costs and market demand risks
- Providing strategic direction on funding issues, including those relating to the company's going-concern status and financial sustainability
- Focusing on B-BBEE performance with the company attaining a (self-assessed) level 5 contributor status in 2019
- Reviewing the quality of stakeholder engagement, including that with government, regulators, trade unions, communities, customers and the ArcelorMittal group. In addition, board members, led by the chairman, engaged with various public sector stakeholders on behalf of the company
- Holding management to account for the company's safety performance, to ensure that the current improvements will be sustained and even improved upon
- Involving itself extensively in remuneration issues, including the imperative of incentivising and retaining talent
- Providing strategic direction and making difficult decisions on the company's footprint review, business reorganisation and the Section 189 process, particularly to ensure that outcomes were equitable towards those affected
- Ensuring that the requisite capital expenditure was allocated to key environmental projects
- Monitoring the company's compliance with agreements with, inter alia, the competition authorities.

Policies and procedures

ArcelorMittal South Africa is a public company listed under the Industrial – steel and other metals sector of the JSE Ltd (JSE). The company is subject to the JSE Listings Requirements and the Companies Act as well as other legislation applicable to companies in South Africa.

The board's governance policies and procedures are continually updated to ensure ongoing adherence to the JSE Listings Requirements, current legislation, international best practice and King IV. The board also recognises that its role includes approving and monitoring the implementation of strategy that adequately considers the organisation's priorities, its impacts on the various capitals and its ability to create meaningful, sustainable value for stakeholders.

In 2019 the board engaged with the company secretary, with management and independent experts on assessing the extent to which it applied the principles and recommended practices of King IV, and the extent to which this application resulted in the desired governance outcomes.

The board delegates to committees of the board particular roles and responsibilities – which are detailed in committee reports forming part of the online Leadership Report. Committees of the board are all governed by formal terms of reference and deal with matters in greater detail and then report to the board or obtain approval of the board with regard to material matters.

Structure and processes

The board is governed by a formal board charter setting out its composition, processes and responsibilities. The primary responsibilities of the board are to:

- Retain full and effective control of the company
- Give strategic direction to the company
- Monitor management on implementing plans and strategies, as approved by the board
- Appoint the chief executive officer and executive directors
- Identify and regularly monitor key risk areas and key performance indicators of the business
- Oversee the quality of stakeholder relationships and ensure that these relationships create broad-based value for the company, for society and for stakeholders
- Ensure the company complies with relevant laws, regulations and codes of business practice
- Maintain oversight over succession planning and management
- Ensure that the company communicates with shareowners and all relevant stakeholders openly and promptly
- Monitor the company's integrated performance
- Establish a formal and transparent procedure for appointments to the board, as well as a formal orientation programme for incoming directors
- Regularly review processes and procedures to ensure the effectiveness of internal systems of control including information and technology management and accept responsibility for the total process of risk management
- Assess the performance of the board, its committees and its individual members on a regular basis
- Address the retirement and re-election of directors.

Ethical business practices

Fair and ethical business practices are at the heart of our values.

These principles are entrenched in our code of business conduct and reinforced by specific policies and training programmes on issues such as anti-trust and anti-corruption behaviour. This year the transformation, social and ethics committee reviewed the code and anti-corruption guidelines and reported to the board that it believed these were adequate.

Over the past year, 57 ethics-related incidents were reported to forensic services (2018: 81). Of these, 53 were found to have been unsubstantiated or were referred back.

Empowering management – delegation

The board is acutely aware of its role to provide leadership and direction, and to empower the chief executive officer and management team to execute the strategy of the board. In this regard there is a clear delegation of authority framework which is reviewed on a regular basis.

Audit and risk committee

The audit and risk committee report, required in terms of section 94(7) of the Companies Act, is set out on page 66 of this integrated report.

Remuneration report

Human resources, remuneration and nominations committee chairman's report

On behalf of the human resources, remuneration and nominations committee (HRN), I present the 2019 ArcelorMittal South Africa remuneration report.

This report sets out the company's remuneration philosophy, policy and implementation with remuneration disclosures for non-executive directors and executive directors.

The HRN committee is responsible for ensuring that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. Our aim is to give direction, assist and advise the board on remuneration-related matters specifically for the executive, top management and senior management teams.

Recommendations to the board and decisions taken during the course of this year have been cognisant of the very difficult trading and economic conditions experienced in 2019. Our remuneration policy and implementation have been shaped by the company strategy to bring the organisation to future, long-term sustainability and viability.

In accordance with the recommendations of the King IV Report, resolutions on the remuneration policy, remuneration implementation report and non-executive directors' remuneration were presented for non-binding advisory voting by shareholders at the annual general meeting (AGM) held on 23 May 2019.

The results of these votes were as follows:

	Vote results	
AGM resolutions	**2019 %**	2018 %
Remuneration policy	**98.02**	97.65
Remuneration implementation	**98.02**	98.02
Non-executive directors' fees	**99.97**	99.99

Despite the pleasing financial results and positive performance in the 2018 financial year, the company continued with several cost management and productivity improvement interventions aimed at preserving cash. The situation has remained critical for the steel industry. Increases in the costs of raw materials, along with a fall in international steel prices, a weak South African economy and low demand for steel remained our greatest challenge. The efforts which commenced during 2018 were insufficient and additional measures were implemented to strengthen the company's cash base.

As proponents of King IV, our company continues to align its remuneration policy and pay practices with the company's performance and financial results, thereby maintaining the link between performance and reward. While we have, during 2019, retained our broad remuneration policy with minimal variation, we have implemented moratoriums on promotions, external appointments and annual salary adjustments. We have revised our long and short-term incentive policies, strengthening performance measures in line with our Business Transformation Programme and other cost and productivity improvement interventions.

In July 2019 a notice in terms of Section 189 of the Labour Relations Act was served. The notice announced restructuring as a result of operational requirements. This process was concluded in November 2019 whereafter implementation commenced and concluded in January 2020. In total, 694 voluntary and forced retrenchments resulted from the Section 189 process which, when added to natural attrition and affected retirees, equated to a total reduction of 1 097 employees relative to the total employee count of 8 716 as at the end of June 2019.

In November 2019, following the conclusion of the first phase of the strategic asset footprint review, a second Section 189 process announcement was made regarding winding down Saldanha Works and placing that operations on care and maintenance. The consultation process was concluded in January 2020 and the wind-down will be completed at the end of the first quarter of 2020 with an impact on approximately 500 employees based at Saldanha Works.

Measures taken with regard to the utilisation of hired labour and service providers resulted in a reduction of 16% on costs (R14.5 million per month on average) and 19% on full-time equivalents (643 FTEs) associated with external labour when comparing the average utilisation between the first and last quarters of 2019. Continued focus will be applied to achieving optimal utilisation of hired labour and service providers in alignment with the cost and productivity aims of the business.

Despite the challenges faced by the organisation, we continue to assess, align and balance the remuneration philosophies and practices of the company with the business strategy and prevailing operating conditions. This is facilitated by open dialogue with stakeholders and is intended to support strategies for ensuring the long-term sustainability of this organisation.

Nomavuso Mnxasana
Chairman, HRN committee
2 April 2020

Remuneration report

Context to remuneration policy and philosophy

In 2019 we maintained our philosophy of attracting, retaining and motivating employees of the highest calibre. To this end, we managed to stabilise voluntary turnover at senior management level at 5% – from an unsettling 11% at year-end 2018. Our retention strategy aims to strike the right balance between our remuneration practice and market practice while aligning our remuneration policy with the interests of our shareholders.

In the context of continuously challenging trading conditions and the current South African economic downturn, management has had to implement a number of interventions to reduce fixed and variable costs across the business. The interventions include a reduction in TCOE.

As delegated by the board, the HRN committee established an annual work plan which included oversight and preparation of the remuneration report and a review and implementation of the following human resource matters during 2019:

HR strategy and policy

- Determine the policy rules and amendments for retirement fund arrangements and oversee major changes to employee benefit structures
- Review and determine rules, targets for short and long-term incentives and approve amendments as well as implementation
- Review the share incentive scheme to ensure continued contribution to shareholder value while ensuring application of the scheme in line with rules
- Review the outcomes of remuneration policy implementation and oversee any major changes
- Review annual benchmarking results for non-executive directors and the senior management team in line with company remuneration policy.

The HRN committee is further responsible for ensuring a proper system of succession planning for the chief executive officer, top and senior management while monitoring their achievements.

Remuneration policy

Remuneration design structure

The principle of performance-based remuneration remains a cornerstone of our remuneration policy and implementation. During 2019 we maintained the King IV principle of strengthening alignment between reward and the achievement of strategic objectives and positive outcomes. This consideration has strongly influenced our remuneration practice, notably in the implementation of the annual general adjustment for non-unionised employees and the setting of short and long-term incentive performance conditions designed towards business improvement.

ArcelorMittal South Africa's remuneration philosophy aims to attract and retain motivated, high-calibre employees whose interests are aligned with those of our stakeholders and shareholders. In our attempt to achieve this, we believe we have designed a system comprising a competitive but also affordable remuneration mix of fixed and variable pay which provides for differentiation between high, on-target and below-target performance. The pay mix differs according to "job family" categories: generally, the more senior the employee, the higher the proportion of variable pay as part of his or her total reward package. Our remuneration policy comprises the following pay elements:

- Cost to company (CTC)
- Basic salary plus fixed allowances
- Short-term incentive plans
- Long-term incentive plan
- Various benefit plans with company contributions
- Recognition programmes
- Retention and sign-on incentives.

Key changes to our remuneration policy

In the past year the board resolved, with group approval, to review pay practices and policy within a sound governance framework in order to drive the imperative of long-term business sustainability.

In response to the call for support of the Business Transformation Programme objectives in the medium to long term, and to mitigate the impact of the difficult business conditions, a limitation to the actual TCOE cost escalation was agreed upon. For non-unionised employees, the approved adjustment for 2019 was linked to inflation and implementation deferred to 2020 based on the achievement of targeted savings in labour costs. The deferred-adjustment principle was applied to higher-income earners (junior specialist/management to top management levels). The adjustment for bargaining unit employees was implemented in accordance with the 2018 to 2020 multi-year agreement. We revised our grading system this year for non-unionised employees with the aim of reducing the number of levels within the organisation. The intended outcome of this revision is to steer the organisation toward a more agile structure that is underpinned by ownership and accountability for decision-making at the lowest level possible as well as the elimination of unnecessary bureaucracy associated with too many layers of management.

The 2019 long-term incentive plan (LTIP) for the cycle commencing in 2019 was reviewed to ensure closer alignment with the ArcelorMittal group insofar as the current measures used by the group are measured relative to a suitably comprised peer group.

The 2019 short-term incentive plan (STIP) provides for key performance incentives and targets to incentivise achievement of the 2019 budget and Business Transformation Programme targets as well as alignment with group target-setting principles.

Key components of our remuneration policy

Remuneration mix

Remuneration component	Policy principle	Policy execution
	GUARANTEED PAY	
Guaranteed pay: CTC and basic salary plus guaranteed allowances	◆ Non-bargaining: basic cash plus employer contributions to retirement (including disability and death risk insurance) – CTC ◆ Bargaining unit: basic salary plus guaranteed allowances ◆ Market-related broad salary bands differentiated by job family and revised grading system with levels of work reduced from 10 to 6 ◆ Internal remuneration parity modelling and external benchmarking ◆ Increase factors: governance process, external comparable market; inflation; performance and affordability ◆ Benchmarking relative to approved comparable market	◆ Non-bargaining: inclusive CTC adjustment deferred to 2020 and moderated according to performance and inflation ◆ Bargaining unit: basic salary plus guaranteed allowances, adjusted according to approved mandate and 2018 multi-term agreement ◆ Salary scales adjusted according to annual general adjustment ◆ Other ad hoc adjustments: promotion and competency-based pay progression
Employee benefits and allowances	◆ Retirement fund membership is a condition of employment for permanent full-time employees. Retirement funds are defined contribution ◆ Medical scheme membership for full-time employees with an option to join any of four medical schemes ◆ Leave benefits and allowances which include statutory allowances, housing, overtime, retention, etc	◆ Total contribution to retirement funds is 17% of pensionable salary ◆ Medical aid company subsidy is 60% of total contribution subject to monthly cap of R3 097
	VARIABLE PAY	
Non-bargaining: short-term incentive plans	◆ Annual bonus plan with performance measures and targets based on financial and operational strategy. Targets are set in advance	◆ Bonus payments moderated by final approved performance ratings for 2019. Based on linear achievement of 80% of target up to a maximum of 120%. 2019 targets: profitability EBITDA gatekeeper (30%); free cash flow (20%), health and safety (10%); Business Transformation Programme (30%) and return on capital employed (ROCE) (10%) ◆ Bonus calculated on achievement of 2019 targets, grade performance level, annual CTC and three-year individual performance outcome multiplier
Bargaining unit: key performance indicator	◆ Self-funded monthly bonus based on three broad performance themes: productivity, cost and safety. Gatekeepers are EBITDA positive and safety, team based with absenteeism penalties. Targets set monthly	◆ Monthly bonus based on a combined (productivity/cost) sliding scale from 0% to 80% and safety 20%. ◆ Bonus calculated on basic salary, percentage achievement of actual targets times 7%, and payment subject to safety achievement
	◆ Production improvement annual bonus for achievement of liquid steel target communicated and set in advance annually for 2018, 2019 and 2020	◆ Bonus calculated on achievement of liquid steel target based on 0.5% of basic salary
2019 long-term incentive plan	◆ Equity-settled share-based payment transaction. Employees will receive shares when the transaction vests and performance conditions are met. Performance conditions can be market-based or non-market-based ◆ No dividend or voting rights ◆ Three-year performance plan with annual allocations based on service conditions including ongoing employment, role, individual performance. Vesting is dependent on achievement of performance targets ◆ 2019 LTIP allocations split based on 100% performance stock units (PSUs) or 50% PSU and 50% restricted stock units (RSUs) ◆ Linear vesting scale 80% to 120%	◆ Current LTIP grant performance measures: – 50% – Earnings per share relative to the adjusted global group. Target: actual earnings per share performance relative to the peer group based on a year-on-year performance – 50% – ROCE performance relative to the adjusted global group. Target: full financial year values to be used for the measurement period – Allocations calculated on CTC, applicable percentage per grade and individual performance

Remuneration implementation

Guaranteed pay in 2019

Non-bargaining employees are remunerated according to a CTC pay structure which includes basic cash plus employer contributions to retirement. Increased contributions to retirement are permitted although these changes are cost neutral to the company and impact the individual's net income. An average 6% adjustment was implemented in 2018 moderated by individual performance. The approved indexation for 2019 was a further 6%, and implementation deferred for the middle to top management and specialist to April 2020 based on the achievement of targeted savings in fixed costs.

Bargaining unit employees are covered by collective bargaining and term agreements which provide for the principles of basic salary and fixed allowance increases. Salary increases are not subject to performance management. However, pay progression intervals from pay scale minima to maxima are achieved through a structured competency improvement process. The board-approved mandate culminated in a three-year collective agreement covering adjustments for 2018, 2019 and 2020 to be implemented in April of each year. Year two of the agreement was implemented on 1 April 2019; all fixed pay components being adjusted by 7%.

Multi-term wage agreement 2019 to 2020

	2018 implementation	2019 implementation	2020 planned
Agreement features	**2019**	2020	2019
Salary adjustment	**7% across the board**	7% across the board	7% across the board
Additional 0.5% once-off based on achievement of liquid steel targets	**Target not achieved**	Target not achieved	2020 target 4.1Mt
Medical aid subsidy cap adjustment	**7%**	7%	7%

Variable pay – 2019 STIP

The STIP is applicable to non-bargaining employees. Variable pay structures have been redesigned in recent years to ensure that differentiation exists depending on the extent to which an employee is able to control delivery or achievement of the performance measures; therefore line of sight is an important STI principle.

Annual performance bonus payments are linked to specific organisational annual targets and objectives; individual performance is a determining factor in the overall final bonus value.

STIP 2019 – performance scorecard

	Performance levels				Performance targets weighted				
					Financials			Operations	Health and safety
Role	Threshold 80%	Target 100%	Stretch 120%		EBITDA	Free cash flow	ROCE	Business transform-ation project	Safety (LTIFR)
CEO	**20.0%**	**40.0%**	**60.0%**	**Weight**	**30%**	**20%**	**10%**	**30%**	**10%**
General managers	**15.0%**	**30.0%**	**45.0%**						
Group managers	**10.0%**	**20.0%**	**30.0%**	**Target**	**USD283.87m**	**USD93.77m**	**12.0%**	**R1.5bn**	**0.46%**
Managers	**8.8%**	**17.5%**	**26.3%**						

Note: Linear vesting scale: 80% to 120% applied to all targets.

Variable pay – productivity and KPI bonus scheme

The KPI bonus scheme is a negotiated incentive scheme for bargaining unit employees. Lower-than-budgeted production led to a revised incentive scheme based on improved line of sight and operational production efficiency. In addition, bargaining unit employees are eligible for a once-off payment based on the achievement of annual liquid steel production for 2019. Similar principles will apply for the last leg of the agreement in year 2020. These will be communicated at the beginning of each year.

Variable pay – long-term incentive plan (LTIP)

A share option scheme was in effect from 2005 to 2011 and replaced by the 2012 LTIP. Since inception of the LTIP, vesting measurements have varied substantially.

For the cycle commencing in 2019, the LTIP was reviewed to ensure closer alignment with the group insofar as the current measures used by the group were measured relative to a suitably comprised peer group. The board approved the following LTIP measures for 2019.

2019 LTIP grant – performance conditions

	Performance conditions		
	Weight	Measure	Target
ArcelorMittal South Africa	50%	Earnings per share (EPS) relative to the adjusted global group	ArcelorMittal South Africa share performance relative to the peer group based on year-on-year performance
	50%	ROCE performance relative to the adjusted global group	ArcelorMittal South Africa ROCE performance relative to the peer group based on financial full year values

Features of the 2019 LTIP award, in accordance with the approved allocation and measurement rules:

- It is a three-year performance plan
- LTIPs are equity-settled share-based payment transactions
- Employees receive shares when the transaction vests and conditions are met
- Conditions are performance and retention related
- Allocations are made annually
- Allocations are calculated on CTC times applicable % per grade times individual performance
- The audited financial year's performance is used for measurement purposes.

Eligible participants must remain employed to qualify for any settlement. There is provision for proportional awards when there is a change in the effective control of the company or when an employee is retrenched, retires or dies while in service.

Employee retention scheme

In 2018, the company experienced less-than-satisfactory turnover rates of 10% (voluntary) and 12% (all exits) at executive and senior management levels. In view of these outcomes, towards the end of 2018 we revised our retention scheme. The principles of the scheme include: individual performance requirements, fixed calculation methodologies and a mutual contractual lock-in period. For executive management, the three-year retention payment is calculated and paid annually as one-third of annual CTC at time of payment. For our senior management cadre, the three-tranche payments are calculated at 75% of one-third of current annual CTC, for professional/middle management the three tranche payments are calculated at 50% of one-third of current annual CTC. This retention scheme replaces the previous retention schemes applicable. Payments to identified employees meeting the stipulated criteria for retention amounted to R10 million for the reporting year.

Medium-term incentive scheme (MTI)

The MTI scheme, aimed at the retention of critical skills, has been replaced by the employee retention scheme. The MTI remains applicable to employees who have obtained a government competency certificate (GCC). Eligibility and payment criteria are linked to positional requirements.

Contractual arrangements

We do not have any fixed-term contracts with executive directors or senior executives and there exists no restraint or special severance compensation payable to such employees. A period of restraint with standard non-compete and non-solicitation conditions is included as a generic clause in employment contracts.

Non-executive directors

A three-year remuneration correction strategy to offset the effects of non-executive directors receiving no increases in 2012 and 2014 was approved by the board in November 2015.

The three-year strategy would have been fully implemented as at 1 June 2018. However, fee adjustments based on the strategy for 2017 and 2018 were not implemented after the board resolved, in July 2017, that non-executive directors would forfeit an increase in remuneration for the period 1 June 2017 to 31 May 2018.

The 2018 non-executive directors' benchmark report, which provided an in-depth analysis and overview of non-executive earnings relative to comparable markets, indicated – broadly – that the board chairman and members and chairmen of all subcommittees were remunerated below the market median and market lower quartile. At the AGM on 24 May 2019 shareholders voted in favour of a non-executive directors' retainer fee adjustment through a CPI-based adjustment of 6% and, in order to close the gap between the market and the company's meeting fee structure, a 25% factor was applied as an adjustment. The factor was derived from the difference between 70% of the median and current average total remuneration by at least 33% as the first of three corrections. Implementation date was 1 June 2019.

In October 2019 the second leg of the three-year correction strategy was presented to the board by the HRN committee. To demonstrate support for executive and non-bargaining employees, the board resolved that the recommended increase be forfeited for the period 1 June 2020 to 31 May 2021.

Remuneration of directors and prescribed officers

The table below refers to directors' remuneration and prescribed officers for services rendered to ArcelorMittal South Africa Ltd:

	Cash salary[1] 2019 R	Retirement funding 2019 R	Short-term incentives[2] 2019 R	Equity incentives[3] 2019 R	Retention/ sign-on bonus/ ex gratia/ VSP 2019 R	Other[4] 2019 R	Total remuneration 2019 R	Total remuneration 2018 R
Executive directors								
HJ Verster	8 458 833	521 151	–	–	1 600 000	63 760	10 643 744	12 838 666
AD Maharaj	3 231 764	268 240	–	–	1 166 668	60 288	4 726 960	2 041 400
WA de Klerk[16]	–	–	–	–	–	–	–	15 406 540
D Subramanian[17]	–	–	–	–	–	–	–	3 464 437
Sub-total	11 690 596	789 391	–	–	2 766 668	124 048	15 370 704	33 751 043
Prescribed officers and highest paid employees								
RI Holcroft[5]	384 124	58 017	–	–	–	453 780	895 921	4 077 691
GA Griffiths	2 308 407	191 601	–	–	–	56 704	2 556 712	–
W Venter	2 134 070	177 130	–	61 724	–	50 296	2 423 220	3 955 251
CTW Whitcher	1 864 540	165 655	–	51 580	–	310 235	2 392 010	3 226 189
AM Ngapo[6]	1 570 187	130 327	231 500	–	1 950 060	274 231	4 156 305	4 256 320
JP Jimenez Navarro[7]	1 619 250	–	313 862	–	–	1 079 645	3 012 757	–
S Achmat	2 000 341	299 663	–	32 366	–	47 904	2 380 274	–
WA Nel[8]	849 864	70 540	–	–	–	151 443	1 071 847	3 911 653
M Adam	1 811 065	257 692	–	119 857	–	44 037	2 232 651	5 991 654
HPR Orsoni[9]	852 501	–	–	1 298 440	–	721 843	2 872 784	5 957 019
TS Didiza[10]	821 259	68 165	–	–	–	30 143	919 567	–
JF Swart[11]	1 781 243	146 482	–	56 842	–	291 006	2 275 573	–
NB Bam	1 454 292	120 708	–	–	–	47 904	1 622 904	–
HG Kamat[12]	2 070 415	–	86 378	–	–	596 458	2 753 251	–
J Kotze[13]	1 320 210	110 515	–	–	420 000	329 715	2 180 440	–
C Hautz	2 817 108	–	–	972 553	–	2 282 557	6 072 218	6 255 190
JPS Olivier[14]	2 770 080	229 920	–	–	1 200 000	101 795	4 301 795	–
R Bardien[18]	–	–	–	–	–	–	–	185 230
RH Torlage[19]	–	–	–	–	–	–	–	963 127
Sub-total	28 428 956	2 026 415	631 740	2 593 362	3 570 060	6 869 696	44 120 229	38 779 324
Total	40 119 553	2 815 806	631 740	2 593 362	6 336 728	6 993 744	59 490 933	72 530 367

	Directors' fees 2019 R	Committee fees 2019 R	Other 2019 R	Total remun-eration 2019 R	Total remun-eration 2018 R
Non-executive directors[15]					
PM Makwana	**1 501 648**	**–**	**–**	**1 501 648**	1 411 320
LC Cele	**193 250**	**257 470**	**(685)**	**450 035**	463 097
KM Musonda	**193 250**	**147 538**	**–**	**340 788**	346 458
G Gouws	**193 250**	**292 288**	**2 426**	**487 964**	302 013
JRD Modise	**193 250**	**448 491**	**2 923**	**644 664**	693 661
NP Mnxasana	**193 250**	**490 549**	**4 161**	**687 960**	656 995
NF Nicolau	**193 250**	**374 788**	**6 922**	**574 960**	607 155
NP Gosa	**193 250**	**166 148**	**1 798**	**361 196**	393 479
LM Khangala (independent trustee)	**–**	**72 700**	**878**	**73 578**	58 160
MS Tonjeni (independent trustee)	**–**	**72 700**	**635**	**73 335**	43 620
Total	**2 854 398**	**2 322 672**	**19 058**	**5 196 128**	4 975 958

[1] *Cash salary includes basic salary (cash component).*
[2] *The short-term incentive relates to bonus earned for 2018.*
[3] *Further detail on the equity incentives can be found under directors' unexercised share options and LTIPs in the table that follows.*
[4] *Other includes UIF, COID, monthly leave structuring, leave encashment, travel claims, telephone costs, ad hoc payments, death benefit, employer contribution to medical aid and travel allowance. Other also includes mobility benefits paid to expatriates.*
[5] *RI Holcroft resigned as general manager Saldanha Works effective 1 March 2019.*
[6] *AM Ngapo resigned as general manager sales and marketing – Africa Overland effective 1 July 2019.*
[7] *JP Jimenez Navarro appointed as general manager Saldanha Works effective 1 March 2019.*
[8] *WA Nel resigned as general manager procurement and logistics effective 1 May 2019.*
[9] *HPR Orsoni resigned as chief technology officer effective 1 April 2019.*
[10] *TS Didiza was appointed as group manager stakeholder management and communications effective 15 July 2019.*
[11] *JF Swart was promoted to chief procurement officer effective 1 November 2019.*
[12] *HG Kamat resigned as group manager procurement and logistics effective 1 December 2019.*
[13] *J Kotze was promoted to executive manager Newcastle effective 1 November 2019.*
[14] *JPS Olivier was appointed as chief operating officer effective 1 March 2019.*
[15] *NEDs' fees based on invoice totals due to accounting (rounding) differences.*
[16] *WA de Klerk resigned as CEO effective 31 January 2018.*
[17] *D Subramanian resigned as CFO effective 31 July 2018.*
[18] *R Bardien resigned as general manager human resources and transformation effective 31 January 2018.*
[19] *RH Torlage resigned as general manager special projects and strategy effective 30 April 2018.*

ArcelorMittal South Africa long-term incentive plans and equity-settled share options

Names of executives	Award date	Number of allocations outstanding at the start of the year	Number of allocations made during the year	Adjustment for units not expected to vest	Number of allocations vested during the year	**Number of allocations forfeited during the year**	Number of allocations at the end of the year	**Present value of invested share units at the end of the year[1]**
							R	**R**
HJ Verster	20-06-2018	2 845 185	–	546 276	–	**–**	2 298 909	**2 735 702**
	20-06-2019	–	3 578 943	1 192 981	–	**–**	2 385 962	**2 839 295**
		2 845 185	3 578 943	1 739 257	–	**–**	4 684 871	**5 574 997**
AD Maharaj	20-08-2019	–	1 944 447	648 149	–	**–**	1 296 298	**1 542 595**
			1 944 447	648 149	–	**–**	1 296 298	**1 542 595**
M Adam	10-10-2016	390 407	–	97 602	50 489	**144 714**	97 602	**116 146**
	08-05-2017	333 203	–	121 019	–	**–**	212 184	**252 499**
	20-06-2018	1 061 776	–	203 861	–	**–**	857 915	**1 020 919**
	20-06-2019	–	589 891	196 630	–	**–**	393 261	**467 980**
		1 785 386	589 891	619 112	50 489	**144 714**	1 560 962	**1 857 544**
AM Ngapo	08-05-2017	553 624	–	201 076	–	**–**	352 548	**419 532**
	20-06-2018	540 050	–	103 690	–	**–**	436 360	**519 269**
		1 093 674	–	304 766	–	**–**	788 908	**938 801**
W Venter	10-10-2016	197 538	–	49 385	34 291	**64 478**	49 384	**58 767**
	08-05-2017	202 313	–	73 480	–	**–**	128 833	**153 311**
	20-06-2018	644 686	–	123 780	–	**–**	520 906	**619 878**
	20-09-2019	–	810 947	270 316	–	**–**	540 631	**643 351**
		1 044 537	810 947	516 961	34 291	**64 478**	1 239 754	**1 475 307**
CTW Whitcher	10-10-2016	81 030	–	20 258	27 291	**13 224**	20 257	**24 106**
	08-05-2017	217 980	–	79 170	–	**–**	138 810	**165 184**
	20-06-2018	536 636	–	103 034	–	**–**	433 602	**515 986**
	20-09-2018	–	728 472	242 824	–	**–**	485 648	**577 921**
		835 646	728 472	445 286	27 291	**13 224**	1 078 317	**1 283 197**
GA Griffiths	19-08-2019	–	548 247	91 375	–	**–**	456 873	**543 678**
		–	548 247	91 375	–	**–**	456 873	**543 678**
S Achmat	10-10-2016	50 846	–	12 712	17 125	**8 298**	12 711	**15 127**
	08-05-2017	26 288	–	9 548	–	**–**	16 740	**19 921**
	20-06-2018	100 522	–	19 300	–	**–**	81 222	**96 654**
	20-08-2019	–	1 582 356	527 452	–	**–**	1 054 904	**1 255 336**
		177 656	1 582 356	569 012	17 125	**8 298**	1 165 577	**1 387 038**

Names of executives	Award date	Number of allocations outstanding at the start of the year	Number of allocations made during the year	Adjustment for units not expected to vest	Number of allocations vested during the year	**Number of allocations forfeited during the year**	Number of allocations at the end of the year	**Present value of invested share units at the end of the year[1]**
							R	**R**
JF Swart	10-10-2016	93 764	–	23 441	31 579	**15 303**	23 441	**27 895**
	08-06-2017	68 699	–	24 951	–	**–**	43 748	**52 060**
	20-06-2018	218 916	-	42 032	-	**-**	176 884	**210 492**
	19-08-2019	-	250 001	83 334	-	**-**	166 667	**198 334**
		381 379	250 001	173 758	31 579	**15 303**	410 740	**488 781**
NB Bam	19-08-2019	–	207 237	207 237	–	**–**	–	**–**
		–	207 237	207 237	–	**–**	–	**–**
J Kotze	19-08-2019	–	276 316	46 053	–	**–**	230 263	**274 013**
		–	276 316	46 053	–	**–**	230 263	**274 013**
JPS Olivier	20-08-2019	–	1 473 684	491 228	–	**–**	982 456	**1 169 123**
		–	1 473 684	491 228	–	**–**	982 456	**1 169 123**

LTIP shares vest within three to five years.

[1] *Based on the closing price as at 31 December 2019.*

LTIP shares vest within three to five years.

Restricted stock unit/performance stock unit plans

The following table reflects the number of restricted stock units and performance stock units allocated to executive directors, prescribed officers and the highest paid senior employees who belong to the ArcelorMittal group share-based payment scheme:

Names of executives	Award type	Award date	Number of allocations outstanding at the start of the year	Number of allocations made during the year	Number of allocations vested at the end of the year	Number of allocations at the end of the year	Issue price USD	**Present value of unvested share units at the end of the year USD**
C Hautz		30/06/2016	17 160	–	8 580	**8 580**	4.66	**39 983**
		20/12/2017	4 097	–	–	**4 097**	32.17	**131 800**
		20/12/2018	5 050	–	–	**5 050**	18.61	**93 981**
		16/11/2019	–	4 100	–	**4 100**	18.57	**76 137**
			26 307	4 100	8 580	**21 827**		**341 901**
JP Jimenez Navarro	PSU	30/06/2016	400	–	200	**200**	4.66	**932**
		20/12/2017	300	–	–	**300**	32.17	**9 651**
			700	–	200	**500**		**10 583**

Audit and risk committee report

The audit and risk committee (the committee) has pleasure in submitting its report for the year ended 31 December 2019 to shareholders as required by section 94(7)(f) of the Companies Act 71 of 2008, as amended (Companies Act).

Membership of the committee and attendance at meetings

In compliance with the Companies Act, the following committee members were elected by shareholders at the AGM of the company held in 2019 to serve until the next AGM on Thursday, 21 May 2020:

- JRD Modise (independent chairman)
- LC Cele (independent non-executive director)
- NP Mnxasana (independent non-executive director).

The committee comprises only independent non-executive directors who are all financially literate and have the adequate relevant skills and experience to execute their duties and responsibilities effectively.

The qualifications of members and the details of the committee meetings attended by each of the members are set out on pages 22 and 23 of the integrated report.

The committee held five meetings during the past financial year. The chief executive officer and chief financial officer attend committee meetings by invitation.

Functions of the committee

The committee reports that it has adopted appropriate formal terms of reference as its mandate, has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein. During the financial year under review, the committee carried out its functions by reviewing the following matters:

- Review and approve, for recommendation to and approval by the board, the quarterly production reports, interim reports, the integrated report, the annual financial statements, preliminary reports, accounting policies for the company and all subsidiaries, and any other announcement regarding the company's results or other financial information to be made public
- The effectiveness of the combined assurance model
- The reports of the internal audit function on the state of internal control including its forensic reports regarding fraud prevention and detection
- The effectiveness of the internal audit function
- The auditor's findings and recommendations
- Statements on ethical standards for the company and considered how they are promoted and enforced
- Significant cases of unethical activity by employees or by the company itself
- Reports on the risk management process and assessed the company's exposure to the following risks:
  - (i) Top strategic risks (including credit and market risks, human resources risks and compliance risks)
  - (ii) Operational risks
  - (iii) Information technology risks.

Independence and effectiveness of the external auditor

Deloitte & Touche (Deloitte) was reappointed as auditor of the company until the next AGM. During the year, the committee reviewed a presentation by Deloitte and, after conducting its own review, is satisfied with the independence and objectivity of Deloitte as external auditor. The committee is satisfied that the auditor has at all times acted with unimpaired independence. Deloitte has been the auditor since 2004. A letter in terms of the Johannesburg Stock Exchange (JSE) Listings Requirement paragraph 22.15(H) has been submitted by Deloitte. The committee is satisfied that Deloitte is compliant with the relevant external audit partner JSE qualification and rotation rules, whereby the lead engagement partner is required to rotate every five years. The current lead partner has been the auditor since 2018.

The committee further approved the fees paid to Deloitte and their terms of engagement. The details of the fees paid to Deloitte are disclosed in note 6 to the consolidated annual financial statements on page 34.

All non-audit services were approved by the committee during the current financial year in accordance with the board-approved policy on non-audit services performed by the external auditor. The committee meets with the auditor independently of senior management.

The committee agendas provide for confidential meetings between committee members and the internal and external auditors.

Statutory reporting

The committee has evaluated the annual financial statements of ArcelorMittal South Africa Ltd and the group for the year ended 31 December 2019 and, based on the information provided to the committee, considers that the company and group comply, in all material respects, with the requirements of the Companies Act, the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and applicable legislation and financial pronouncements as issued by the Financial Reporting Standards Council.

Key audit matters

The committee notes the following key audit matters set out in the independent auditor's report, which were also matters of concern for the committee over the year:

- Impairment of property, plant and equipment
- Environmental remediation obligations
- Current and deferred tax.

The auditor has issued an unqualified audit opinion with a material uncertainty relating to going concern, and an emphasis of matter regarding the impact of the COVID-19 pandemic.

Internal financial controls

The committee agendas provide for confidential meetings between committee members and both the internal and independent external auditors.

The committee has oversight of the group's financial statements and reporting process, including the system of internal financial control. It is responsible for ensuring that the group's internal audit function is independent and has the necessary resources, standing and authority within the organisation to discharge its duties. The committee oversees cooperation between internal and external auditors and serves as a link between the board of directors and these functions. The head of internal audit reports administratively to the chief executive officer and functionally to the chairman of the committee and head of group internal audit of the holding company, ArcelorMittal Holdings AG.

The committee relies on the assurance provided by the internal audit function of the group on the system of internal financial controls. Several internal control deficiencies were reported, mainly due to inadequate corroborating evidence to substantiate the controls exercised. The group has compensating controls in place, including financial statement review controls, that served to mitigate the severity of the reported control deficiencies. As such, the individual and aggregate severity of the control deficiencies is not material.

Expertise and experience of the chief financial officer and the finance function

The committee has satisfied itself that the chief financial officer, AD Maharaj, has the appropriate expertise and experience to carry out his duties.

The committee has assessed the competency, skills and resourcing of the group's finance function, and is satisfied as to the overall adequacy and appropriateness of the finance function, and further ensured that the company has established appropriate financial reporting procedures and that these procedures are operating.

Based on an assessment performed annually, the committee is of the opinion that the finance function, as well as the chief financial officer, are effective.

Expertise and experience of the company secretary

NB Bam resigned as company secretary on 10 January 2020. The committee is satisfied, that for the 2019 financial year, she demonstrated having appropriate competence and experience and maintained an arm's length relationship to serve as the company secretary.

FluidRock Co Sec (Pty) Ltd (FCS) was appointed as company secretary effective 1 March 2020. The committee has satisfied itself that FCS has the appropriate competence and experience to serve as company secretary of the company.

Discharge of responsibilities

The company continues to prepare group accounts that comply with IFRS and the statutory requirements of the Companies Act and the JSE Listings Requirements, and these responsibilities are discharged within an acceptable timeframe.

The committee has decision-making authority with regard to its statutory duties and is accountable in this regard to both the board and the shareholders. On all responsibilities delegated to it by the board, apart from the statutory duties, the committee makes recommendations for approval by the board.

The committee determined that, during the financial year under review, it had discharged its legal and other responsibilities as outlined in terms of its terms of reference, details of which are included in the full corporate governance report on **www.arcelormittalsa.com**.

The chairman of the committee attends the AGM and is available to answer any questions in relation to matters pertaining to the committee.

JRD Modise
Chairman
2 April 2020

Transformation, social and ethics committee report

The chairman of the transformation, social and ethics committee (the committee) presents the following report to shareholders for the 2019 financial period, in accordance with the requirements of the Companies Act of South Africa, the JSE Listings Requirements and the recommendations of King IV.

ArcelorMittal South Africa (group) is committed to continuous growth in its contribution as a good corporate citizen for the benefit of all its stakeholders. The committee supports the board in this commitment by dealing with the following focus areas: transformation and economic development, social and ethics, environment and workplace, principally in South Africa where most of its operations are conducted.

In keeping with these focus areas, the committee assists the board in setting the tone for an ethical organisational culture and overseeing the group's commitment to social and economic development, fair labour practices, environmental responsibility and good corporate citizenship.

The committee consists of a majority of independent non-executive directors and is chaired by a non-executive director. The chief executive officer is a member and the general manager, human resources and transformation attends all meetings. During the year under review, the committee met twice.

The details of the composition of the committee are:
- NP Gosa (non-executive chairperson)
- PM Makwana (independent non-executive director)
- JRD Modise (independent non-executive director)
- N Nicolau (independent non-executive director)
- NP Mnxasana (independent non-executive director)
- KM Musonda (independent non-executive director)
- R Karol (non-executive director)
- HJ Verster (chief executive officer).

The qualifications of the members and details of the committee meetings attended by each of the members is set out on pages 22 and 23 of the integrated report.

Responsibilities

In terms of its statutory duties, the committee has a duty to assist the board with monitoring and reporting on social, ethical, transformational and sustainability issues, including but not limited to:
- Monitoring the transformation, social, economic, governance, employment and environmental activities of the company
- Bringing matters relating to these activities to the attention of the board as appropriate
- Reporting annually to shareholders on matters within the scope of its responsibilities.

The specific activities required to be monitored by the committee include the company's adherence with legislation, regulations and codes of best practice relating to:
- **Transformation, social and economic development**, including the company's standing relative to the United Nations Global Compact Principles, the Organisation for Economic Co-operation and Development's (OECD) recommendations regarding the combating of corruption, and South Africa's Employment Equity Act and Broad-Based Black Economic Empowerment Act
- **Good corporate citizenship**, including the company's positioning and efforts in promoting equality, preventing unfair discrimination and combating corruption, the group's contribution to the development of communities in which it operates or markets its products and the group's record of sponsorships, donations and charitable giving
- **The environment, health and public safety**, including the impacts of the company's activities and products on the environment and society
- **Consumer relationships**, including the company's advertising, public relations and compliance with consumer protection laws
- **Labour and employment**, including the company's standing relative to the International Labour Organisation's Protocol on decent work and working conditions, and the company's employment relationships and contribution to the educational development of its employees.

In addition to these statutory functions, the committee's terms of reference record its role in encouraging the board to adopt leading practice in relation to social and ethics matters by progressing beyond mere compliance and adding value in its oversight function as recommended by King IV.

To some extent the committee's role and function appear to overlap with those of certain other committees. However, this is not necessarily the case. While the committee considered issues that are also dealt with by other committees, for example, environmental and social matters, the role of this committee is to ensure that it supports the board in ensuring effective direction and integration of key environmental, social and governance approaches for the company, as well as regarding the sustainable development goals (SDGs).

ArcelorMittal South Africa is part of the ArcelorMittal Holdings AG group of companies. ArcelorMittal group has set bold targets to be carbon neutral in Europe by 2050 and although targets still need to be developed for the company, we are aligned with the ArcelorMittal group in improving environmental performance and mitigating the impacts on the natural environment.

Matters brought to the attention of the board

During the reporting period the committee brought the following key matters to the attention of the board:

1. The committees continued its oversight and monitoring to cover the broad scope of its mandate as required by legislation, King IV and the committee charter
2. The challenges associated with organisational restructuring and their impacts on culture, morale and transformation
3. The B-BBEE strategy for 2019. In 2019, the group was a level 5 compliant company. We set out to improve on this compliance status and to secure a level 4 compliance score at year-end, leading into 2020. Changes introduced to the generic code of good practice during 2019, however, impacted negatively on our ability to deliver on this strategy. Our self-assessment was that we would achieve a level 7 compliance status based on our completed 2019 financial year. For 2020, we have set an improved compliance target in alignment with our medium-term strategy to be a fully B-BBEE-compliant company
4. The extent to which effective economic transformation was taking place in respect of enterprise development, supplier development and preferential procurement
5. The status of the company's corporate culture, employee engagement and development in retaining employees. Corporate culture and employee engagement and retention were focused on following the completion of a "speak up" survey, the result of which served as input into addressing the primary concerns raised by employees through the survey. The key themes identified by the survey were related to compensation and benefits, organisational direction, development and performance management
6. The arrangements made by the company to enable employees and outside whistleblowers (including customers and suppliers) to report in confidence their concerns about possible improprieties (including fraud, corrupt practices and non-compliance with laws and regulations) that may have a direct or indirect effect on the company, including adherence to compliance
7. Amendments to the company's code of conduct or other ethical standards and ensure management monitors and promotes compliance with such standards
8. The extent to which effective transformation is taking place within the company in respect of recruitment, retention, career development and succession planning
9. Stakeholder engagement plan and process. A stakeholder engagement plan was noted by the committee. Stakeholder engagement is based on the recognition that what we do has an impact on others. We need to understand what these impacts are (good or bad) and manage them responsibly, taking other people's rights and priorities into account. The purpose of an effective stakeholder engagement plan is:
   - To determine the company's material issues, which influence strategy
   - To get the right people together to share information, creating a group of stakeholders who are educated and informed about the business
   - Consolidation and enhancement of relationships with key stakeholders
   - Manage and protect the ArcelorMittal South Africa brand and reputation
   - Build an engaged and motivated workforce to deliver on the company's strategy
   - Liaise with government at local, provincial and national level for mutually beneficial outcomes
   - Lead and maintain ongoing dialogue with community members and district leaders, forging open and honest relationships through community outreach programmes which help build a legacy of caring about our communities
10. The company's response to the needs of the local communities as follows:
    - Rebuilding of Hoërskool Driehoek following a fatal walkway collapse earlier in 2019 – this showed support from ArcelorMittal South Africa as it has a business responsibility and moral obligation to respond to the needs of local communities
    - Ongoing investment in education through ArcelorMittal South Africa's three flagship science centres. More than 19 000 children from less fortunate schools located in local communities benefit each year from these centres
    - Feeding scheme located in the Vaal area, provided hot meals to approximately 6 000 less fortunate community members each day
    - Setting aside an effective 5% of ArcelorMittal South Africa shares in a trust that, when economic value realises, will benefit communities.

Conclusion

We are pleased to confirm that the group continues to meet its transformation, social, ethics and governance responsibilities. The committee reports, through its chairman, to shareholders at the annual general meeting on matters within its mandate.

The committee confirms that it has discharged its responsibilities appropriately during the year under review and is of the view that, in all material respects, it has achieved its objectives for the year under review and that no items have been reported which would indicate non-compliance with its mandate or its statutory requirements in terms of the Companies Act.

Noluthando Gosa
Chairman
2 April 2020

Independent limited assurance report to the directors of ArcelorMittal South Africa

We have performed our limited assurance engagement in respect of the key performance indicators for the year ended 31 December 2019.

The subject matter comprises the key performance indicators disclosed in accordance with the GRI Standards supported by management's basis of preparation, as prepared by the responsible party, during the year ended 31 December 2019.

The terms of management's basis of preparation comprise the criteria by which the company's compliance is to be evaluated for purposes of our limited assurance engagement. The key performance indicators are as follows:

NO	SUSTAINABILITY INDICATOR DESCRIPTION
	Social
1	Lost-time frequency rate
2	Total number of work related fatalities
3	Total number of permanent employees and RSA based employee demographic (race)
4	Corporate social investment spend
5	Total number employees within the development pipeline
	Environmental
6	Environment (scope 1) consumption
7	Environment (scope 2) consumption
8	Total greenhouse gas emissions
9	Carbon emission intensity per tonne of liquid steel
	Economic
10	Externally verified B-BBEE score card
11	Liquid steel capacity utilisation

Directors' responsibility

The directors being the responsible party, and where appropriate, those charged with governance are responsible for the key performance indicator information, in accordance with management's basis of preparation.

The responsible party is responsible for:

- ensuring that the key performance indicator information is properly prepared and presented in accordance with management's basis of preparation;
- confirming the measurement or evaluation of the underlying key performance indicators against the applicable criteria, including that all relevant matters are reflected in the key performance indicator information and;
- designing, establishing and maintaining internal controls to ensure that the key performance indicator information is properly prepared and presented in accordance with management's basis of preparation.

Assurance practitioner's responsibility

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historic Financial Information*. This standard requires us to comply with ethical requirements and to plan and perform our limited assurance engagement with the aim of obtaining limited assurance regarding the key performance indicators of the engagement.

We shall not be responsible for reporting on any key performance indicator events and transactions beyond the period covered by our limited assurance engagement.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Deloitte applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

We have performed our procedures on the key performance indicator transactions of the company, as prepared by management in accordance with management's basis of preparation for the year ended 31 December 2019.

Our evaluation included performing such procedures as we considered necessary which included:

- Interviewing management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process for the selected key performance indicators;
- Assessing the systems and processes to generate, collate, aggregate, validate and monitor the source data used to prepare the selected key performance indicators for disclosure in the reports;
- Inspecting supporting documentation and performing analytical review procedures; and
- Evaluating whether the selected key sustainability performance indicator disclosures are consistent with our overall knowledge and experience of sustainability processes.

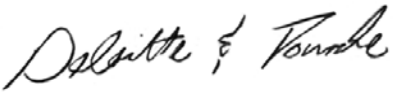
Our assurance engagement does not constitute an audit or review of any of the underlying information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements and accordingly, we do not express an audit opinion or review conclusion.

We believe that our evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

In a limited assurance engagement, the procedures performed vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the key performance indicator information has been properly prepared and presented, in all material respects, in accordance with management's basis of preparation.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the key performance indicators are not prepared, in all material respects, in accordance with management's basis of preparation.



Deloitte & Touche
Registered Auditors

Per Mark Victor
Partner
2 April 2020

Private Bag X6
Gallo Manor 2052
South Africa

Building 3
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
Docex 10 Johannesburg

Tel: +27 (0)11 806 5000
Fax: +27 (0)11 806 5999
www.deloitte.com

Assurance over the 2019 integrated reporting process

Background, scope and work performed

Management requested Internal Audit (IA) to conduct an assurance review over the process followed to compile the company's integrated report for the year ended 31 December 2019.

A project plan for the report was compiled by management, containing the purpose, process, roles and responsibilities, focus areas and initiatives. In addition, a tracking sheet was compiled by the integrated report reporting team to keep track of all interviews with internal stakeholders, information requests sent out and follow up on any outstanding information to ensure that complete information was obtained.

The reporting team obtained appropriate guidance from company leadership on what they (leadership) considered material for the purposes of reporting in the integrated report. IA attended this briefing and closely monitored the team on the detailed gathering, presentation and verification of information as well as communication with all internal stakeholders including the board. For the purpose of providing an assurance statement, IA formed part of the reporting team in an advisory capacity and observed the process.

Overall conclusion

IA is satisfied that the integrated report team executed against its brief in terms of materiality and the presentation of information including that describing leadership's formulation and execution of strategy. The team was effective in obtaining material information concerning the operations of ArcelorMittal South Africa.

Adinda Louw
Head South Africa internal audit and SOX
11 March 2020

Corporate information

Company registration
ArcelorMittal South Africa Ltd
Registration number: 1989/002164/06
Share code: ACL
ISIN: ZAE000134961

Registered office
Vanderbijlpark Works, Main Building
Delfos Boulevard
Vanderbijlpark 1911

Postal address
PO Box 2
Vanderbijlpark, 1900
Telephone: +27 (0) 16 889 9111

Internet address
https://southafrica.arcelormittal.com

Company secretary
FluidRock Co Sec (Pty) Ltd (appointed with effect 1 March 2020)
Registration number: 2016/093836/07
Monument Office Park, Suite 5-201,
79 Steenbok Avenue, Monument Park, 0181

Sponsor
Absa Bank Limited (acting through its corporate and investment banking division)
Alice Lane North
15 Alice Lane, Sandton, 2196
Telephone: +27 (0) 11 8956843
Email: equitysponsor@absacapital.com

Auditors
Deloitte & Touche
5 Magwa Crescent
Waterfall City, 2090
Telephone: +27 (0) 11 806 5000

Transfer secretaries
Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue, Rosebank
Private Bag X9000, Saxonwold, 2132
Telephone: +27 (0) 861 100 950
Facsimile: +27 (0) 11 688 5217
Email: web.queries@computershare.co.za

United States ADR depositary
The Bank of New York Mellon
ADR Department
101 Barclay Street, 22nd Floor, New York, NY 10286
United States of America
Internet: www.bnymellon.com

ArcelorMittal

ArcelorMittal South Africa Corporate Office

Delfos Boulevard, Vanderbijlpark
Telephone: +27 (0) 16 889 9111
Facsimile: +27 (0) 16 889 2079
GPS coordinates: E 27° 48′ 19.6″ S 26° 40′ 22.3″

https://www.arcelormittalsa.com
https://www.arcelormittalsa.com/InvestorRelations/IntegratedAnnualReports.aspx

http://www.youtube.com//arcelormittal

https://www.linkedin.com/company/arcelormittal-south-africa/